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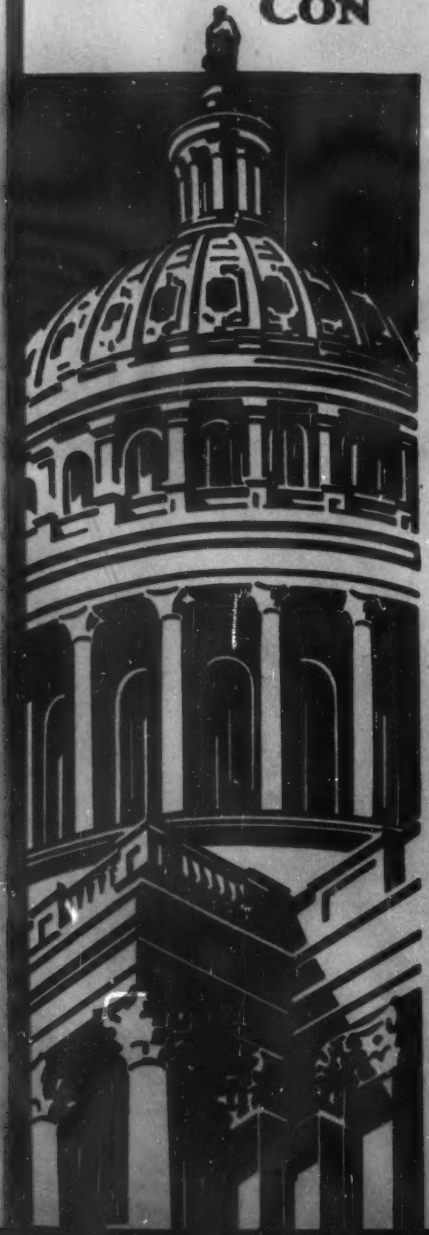

May, 1935

Congress Considers Proposal To Abolish Utility Holding Companies

Previous Efforts to Curb Holding Companies
President Roosevelt Stresses Need for Action
Report of National Power Policy Committee
Provisions of Pending Wheeler-Rayburn Bill
Should Power Utility Holding Companies Be Abolished?—Discussed Pro and Con

Congress Faces Another Legislative Log Jam

WASHINGTON, D.C.

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Editor and Publisher

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Founder

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— CONTENTS —

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Vol. 14
No. 5

Congress Faces a Legislative Log Jam

Progress to Date

by N. T. N. Robinson

OWING to the developments, as well the lack of developments in the Senate during the past few weeks, all hope of an early adjournment by Congress will soon be abandoned unless the President agrees to scrap the major portion of his legislative program.

Aside from the fact that several pieces of major legislation have been advanced through committee consideration in the Senate, the Five-Billion-Dollar Works Relief Bill is the only one that has reached the White House for Presidential signature.

The House has passed the Social Security Bill, providing for unemployment insurance and old-age pensions, and the Patman Soldier Bonus Bill (which was not on the Administration program), and is about to consider the Bank Reform Bill. But the Senate has done nothing since it passed the Works Relief Bill.

Administration Measures Caught in the Jam

Hung up in Senate Committees are such Administration legislative pets as the following:

The bill to continue NRA, which will die automatically on June 16, unless its time is extended by Congressional action, which is before the Committee on Finance.

The proposed amendments to the Agricultural Adjustment Act, to give the AAA more authority over processors of agricultural commodities, which is before the Committee on Agriculture.

Progress in the House

The Wagner Labor Disputes Bill, to outlaw company unions and make effective the famous Section 7-a of the National Industrial Recovery Act, which is before the Committee on Education and Labor.

The Bank Reform Bill, which, when passed by the House, will receive a careful going over by the Senate Committee on Banking and Currency before being reported for consideration on the floor of the Senate.

Added to these measures, which are all Administration measures, except the Labor Disputes Bill, there are the Black Thirty-Hour Week Bill, the Soldier Bonus Bill, and last, but by no means least, the Costigan-Wagner Anti-Lynching Bill, making lynching a Federal crime.

Effects of the "Lame Duck" Amendment

One of the first discoveries made by the Democratic leaders in the House, who started out ardently to carry out the President's wishes for prompt action on his program was that the delay of a month in the meeting of Congress, which, due to the first application of the "Lame Duck" Amendment, met on January 3, instead of the first Monday in December, as heretofore, was a decided handicap to them.

Where, in the past, they had utilized the month of December as a sort of shake-down period, they were forced this time, to start the wheels of legislation moving immediately. The House leaders did fairly well, but the present jam in the Senate was a foregone conclusion.

Eighteen months ago the President might have cracked the whip and forced speed in the Senate, but he cannot do it now.

A Summer Session Highly Probable

How much of his program the President might be willing to scrap rather than have Congress sit until late in the summer is a question none but the President can answer, and he has given no hint as to his real feelings on the subject.

But, granting that he might be willing to throw it all overboard, many of the Progressives in the Senate would

oppose adjournment without action on some of the pending bills.

And there is another point against an early adjournment. Next year is election year. Senators and Representatives have no particular reason for hurrying home this year, whereas next year they will want to get home early to corral the votes necessary to their reelection. Consequently, they are arguing that if there is any hanging around Washington through the summer heat to be done, they would prefer doing it in 1935 than in 1936.

So, unless the unexpected happens, they are likely to hang around until August.

But, to quote one of Capitol Hill's most famous axioms:

"You can never tell what may happen in the Senate."

Agriculture

Agricultural Adjustment Administration

Action by Congress on amendments to the Agricultural Adjustment Act is held up pending the controversy over the cotton situation which has become of major importance to the Administration.

The cotton growers are complaining that the American cotton growing is being ruined by the crop reduction system because the maintenance of high prices for American cotton is forcing other cotton producing countries to increase their cotton acreage, which, they declare, will eventually result in foreign independence of the American market.

The cotton manufacturers complain that the increase in the cost of cotton goods to the consumer because of the AAA processing tax, consumption in America is dwindling to an extent their business is being dangerously curtailed. In addition, they complain that Japan is flooding the American markets with cotton products at prices the American manufacturers cannot possibly meet.

On top of the complaints of the cotton growers and manufacturers comes the rising tide of protest against the high cost of food, due, it is charged, to the AAA. Administration officials declare that the wide range between the price received by the farmer and the price paid by the consumer is due to the profitz made by the middleman, and indicate that the middleman will soon receive attention.

The Farmers' Home Corporation Bill

On April 16 the Senate began debate on S. 2367, introduced by Senator John H. Bankhead, Alabama, Democrat, and reported by the Committee on Agriculture and Forestry, to create a Farmers' Home Corporation to handle Federal loans in the amount of $1,000,000,000 to aid tenant farmers and those who work crops on shares, or "share croppers" as they are called in the cotton producing states. The Bankhead bill would give discretionary power to the Administration to buy small farms, livestock, farm equipment and implements for farmers, tenants, share croppers and farm workers.

One of the primary objects of the bill is to leave farm workers on or near the farms where they now reside instead of permitting them to shift from one community to another. If no land can be acquired in their vicinity lands will be bought elsewhere for permanent settlement.

The Bankhead bill is meeting vigorous opposition in the Senate, on the ground that it is class legislation, and on the ground of its ultimate cost, of which the original sum of $1,000,000,000 its opponents claim represents but a small fraction.

Anti-Lynching

Vigorous efforts are being made by Senator Edward P. Costigan, Colorado, Democrat, to obtain consideration by the Senate of the anti-lynching bill, S. 24, which has been reported from the Committee on the Judiciary. This measure, which has been held back so far, promises to produce bitter debate, when it is taken up. The bill was introduced jointly by Senator Costigan and Senator Robert F. Wagner, New York, Democrat.

Senators from the Southern states are united in a solid phalanx of opposition, although advocates of the bill claim to have the support of President Roosevelt.

On April 24, in an unsuccessful effort to obtain unanimous consent for immediate consideration of his bill, Senator Costigan gave the following summary of its provisions:

The enacting clause declares that the act is designed to secure to persons within the jurisdiction of every state the equal protection of the laws and to punish the crime of lynching.

Section 1 defines a mob or riotous assemblage as an assemblage of three or more persons, acting in concert, without authority of law, for the purpose of killing or injuring any person in the custody of any peace officer,,, or charged with, suspected, or convicted of crime.

Section 2 declares that if any state or governmental subdivision fails, neglects, or refuses to provide and maintain protection to the life or person of any individual within its jurisdiction against a mob or riotous assemblage, it will be deemed to have denied such person due process of law and the equal protection of the laws. The provisions of the law are enacted to the end that the protection guaranteed to persons in the several states and to citizens of the United States may be secured.

Section 3 (a) provides that where an officer or employee of any state or governmental subdivision charged with the duty of protecting life or person, who has an individual in his custody, fails, neglects, or refuses to make all diligent efforts to give such protection, or any officer or employee responsible for apprehending, keeping in custody, or prosecuting any person participating in such a mob or riotous assemblage who fails, neglects, or refuses to make all diligent efforts to perform such duties shall be guilty of a felony, and on conviction punished by a fine not exceeding $5,000 or by imprisonment not exceeding 5 years, or both such fine or imprisonment.

Section 3 (b) declares that if any officer or employee having in his custody or control a prisoner conspires with any person to put such prisoner to death without authority of law, or to suffer such prisoner to be taken from his custody or control to be so injured or put to death by a mob or riotous assemblage, shall be guilty of a felony, and those who so conspire with such officer or employee shall likewise be guilty of a felony, the participating parties on conviction to be punished by imprisonment of not less than 5 years nor more than 25 years.

Section 4 extends jurisdiction to Federal district courts to try and to punish, in accordance with the laws of the state where the offense is committed, all participants, pro-

vided it is shown that the state officials have failed, neglected, or refused to act or the jurors in the state courts are so strongly opposed to such punishment that there is probability that those guilty will not be punished. Failure for more than 30 days after the offense is committed to apprehend or indict persons who have participated in such mob or unlawful assemblage or failure diligently to prosecute such persons, shall constitute prima facie evidence of such failure, neglect, or refusal.

Section 5 provides for not less than $2,000 nor more than $10,000 liability of any county in which injury or death occurred to the injured person or the estate of the person killed. Action is to be brought in such cases and prosecuted by the United States district attorney in the United States District Court for such district, and, if the forfeiture is not paid on recovery of judgment, the court is to have jurisdiction to enforce payment by a levy of execution upon any property of the county or may otherwise compel payment by appropriate process; and any officer or other person of such county who fails to comply with any lawful order of the court shall be liable to punishment as for contempt and to any other penalty provided by law.

Section 6 provides that where a person put to death has been transported by the mob from one county to another between his seizure and death, the county in which he is seized and the county in which he is put to death shall be jointly and severally liable to pay the forfeiture provided.

Section 7 is the customary legislative declaration that if any provision of the law is held invalid, the application of the remainder of the act shall not be affected.

Labor

Lack of legislative progress by two important labor bills—the Wagner Labor Disputes Bill and the Black Thirty-Hour Week Bill, has caused William Green, President of the American Federation of Labor, to call a special meeting of the Executive Council of his organization to meet in Washington on April 29, to lay plans for an intensive drive to obtain action.

The Black Thirty-Hour Week Bill was reported by the Senate Committee on Education and Labor on March 23. Senator Hugo Black of Alabama, author of the Bill, has made several efforts to have his Bill brought up for consideration by the Senate, but has been unsuccessful.

The Committee on Education and Labor held hearings on the Labor Disputes Bill, but so far has made no report. As the DIGEST goes to press the Committee is considering it in executive session and early action is expected.

Banking

On April 19, the House Committee on Banking and Currency reported H. R. 7617, the much discussed Administration banking reform bill. A majority report was presented by Representative Henry B. Steagall, Alabama, Democrat, Chairman of the Committee, and a minority report by Representative John B. Hollister of Ohio.

A special rule for consideration of the bill will be asked by Representative Steagall and it is expected that the House will act promptly on the measure since it is one in which President Roosevelt is keenly interested.

The Senate Committee on Banking and Currency has begun hearings on an identical bill, introduced by Senator Duncan U. Fletcher, Florida, Democrat, Chairman of that committee.

The banking bill was drawn by a committee from the Federal Deposit Insurance Corporation and the Federal Reserve Board working with officials of the Treasury.

Title I is for perfecting the machinery of the Federal Deposit Insurance Corporation. The committee has made few changes and none of material value. The principal change was to increase the assessment from one-twelfth of 1 per cent to one-eighth of 1 per cent and make it applicable on the total deposit instead of on the insured portion, leaving it in the discretion of the board what levy should be made against savings banks. The bill makes the broadest possible provision to allow state banks to become members of the Federal Reserve System and thereby enjoy the privileges of the Federal Deposit Insurance Corporation.

Title II gives three broad powers to the Federal Reserve Board, and makes it a distinct authority responsible to Congress for the banking system and policy of the nation. The three powers are: (1) to initiate, enforce and carry through open market operations, its decisions being mandatory on all the 12 Federal Reserve banks, which are "bankers' banks," and through them on all the member banks; (2) of fixing the discount rate, and (3) ordering the Reserve requirements of member banks.

Title III carries perfecting amendments to various sections of the Federal Reserve act.

There is no controversy over Titles I and III, and the minority agrees that they should be passed. But Title II, they say, has no place in this bill and should be considered as an entirely distinct measure.

Somewhat the same view is expressed by Senator Carter Glass, Virginia, Democrat, Chairman of the Senate Banking Subcommittee, who is also an opponent of the Reserve Board section. He is seeking action first on the authority for the deposit insurance corporation and the non-controversial national bank law amendments—allowing the highly controversial proposed authority for the Federal Reserve Board to take its chances later—as Representative Hollister will insist.

The amendment urged by Representative Goldsborough of Maryland, ranking Democrat on the House committee, making it mandatory on the Federal Reserve Board to stabilize prices at the 1926 level, has been eliminated.

The objections to Title II is principally this: (1) It gives any President "political control" of the Federal Reserve System through authority to oust the Governor of the Federal Reserve Board; (2) it might permit the whole banking system to be used by the Government to finance its borrowings. It would give the Federal Reserve Board authority to require all the 12 Federal Reserve banks to buy or sell Government securities and bankers acceptances, where heretofore any one or more of these banks could refuse to cooperate.

There was a clash in the committee over this. The majority sentiment is explained by Representative Ford of California, who states that they believed the monetary and credit system of the country should be directly under the control of Congress in order that Congress may exercise broad Constitutional mandate to coin money and regulate the value thereof.

Representative Hollister states that the opposition to Title II is that "by a series of steps it builds up a closer connection with and control by an administration of credit resources of the Federal Reserve banks. It makes it possible for the Federal Reserve Board to compel Federal Reserve banks and even against the better judgment of the best bankers, to go ahead and buy Government bonds through the market might be gutted by them.

"The Federal Government should be placed in no better position than any other seller of securities with respect to its market. One way in which warning signals arise when the Government is continually running a deficit is when it begins to be difficult to float loans. If the Government is in a position where it could make a forced loan, you go by the warning signal before you know it. If loans actually become forced there is no difference in the Government financing in that way and the Government issuing fiat money. When we see the Government spending each year several billions more than it takes in and continuing to pass legislation calling for more expenditures than it can take in for several years, it becomes all the more less wise to put the temptation before any one to use a power to compel the Federal Reserve banks to finance the Government's spending against their better judgment."

National Recovery Act

The battle over the future of the National Recovery Administration continues before the Senate Committee on Finance, with the outcome in doubt. Donald Richber, Chief Coordinator of the Administration, and General Hugh Johnson, former head of NRA, have appeared before the Committee to urge the continuance of the first and one of the most sensational of the New Deal "alphabet agencies." The Brookings Institution, on the other hand, has made public a report characterizing NRA as a failure.

What appears to be the most logical prediction is the same prediction that was made by some of the best informed Senators and Representatives at the beginning of this session of Congress, namely, that NRA will not be permitted to die, as it would if no continuing legislation is passed by June 16, when the present act expires, but will be continued in some greatly modified form designed to save its child labor and, perhaps, its minimum wage provision and, incidentally, the Administration's face, with maybe some provision to restore the operation of the anti-trust laws.

Soldier Bonus

As the DIGEST goes to press, the Senate Committee on Finance is wrestling with perennial soldier bonus problems. It has before it the bill of Representative Wright Patman, Texas, Democrat, which was passed by the House and which provides for the immediate cash payment of the bonus with inflated currency; the plan contained in the bill of Representative Carl Vinson, Kentucky, Democrat, leaving the financing of bonus payments up to the Treasury, which was rejected by the House in favor of the Patman bill; and a new compromise bill offered by Senator Pat Harrison, Mississippi, Democrat, providing for immediate payments in bonds or cash, but establishing a premium for veterans holding their service certificates until maturity in 1945.

Senator Harrison estimates that his plan will cost ultimately $2,660,000,000, $500,000,000 more than the existing law. He would date the bonus certificates from 1918 instead of 1925, as provided by the present law. His plan, Senator Harrison maintains, would call for no further taxes.

Appearing before the Senate Committee on April 23, however, Secretary of the Treasury Morgenthau sounded a warning that the passage of any of the pending cash payment bonus bills would call for new tax laws to raise revenues amounting to anywhere from $200,000,000 to $600,000,000. He added that if any bonus bill is passed Congress should pass with it a tax bill to raise the necessary money, since it could not be taken out of the Administration budget.

So far the President has kept silent on the question, since he originally expressed himself in opposition to any bonus measure.

It seems probable that eventually a bonus bill will be passed by the Senate, but which one cannot be foretold.

What the President will do appears to depend upon what sort of bill is passed. Before Secretary Morgenthau's appearance before the Senate Committee it had been considered likely that the President would agree to a compromise measure, perhaps the Harrison bill, but the Secretary's statement produced a feeling of uncertainty regarding the President's attitude.

If the President vetoes bonus legislation, the House is expected to pass it over his veto, but the Senate is expected to sustain a veto.

Unemployment Insurance and Old Age Pensions

On April 19, the House, after a week of debate, passed the Administration's Social Security bill, practically as reported from the House Committee on Ways and Means. All amendments unapproved by the Ways and Means Committee were voted down, including one substituting the Townsend Plan. The final vote was 372 to 33. For the bill, were 288 Democrats, 77 Republicans, 6 Progressives and 1 Farmer-Labor. Against, were 13 Democrats, 18 Republicans and 2 Farmer-Labors.

The McGroarty bill, embodying the provisions of the Townsend Plan, and offered as a substitute to the Committee Bill, was rejected by a vote of 206 to 56.

The provisions of the bill, together with pro and con arguments were covered in the DIGEST for February (Unemployment Insurance) and March (Old-Age Pensions). Upon its receipt by the Senate, the bill was referred to the Committee on Finance.

★ THE PRO AND CON FEATURE ★

Congress Considers the Proposal to Abolish Utility Holding Companies

Introduction to Subject with Study Outline

For a number of years the question of the proper governmental regulation of public power utilities—gas and electric companies—has been up for consideration in state legislatures and in the Congress of the United States.

Originally, these utility companies were local affairs, each town or city being served by a gas or electric company owned and operated by individuals of the community or, at least, by individuals resident in the state.

As the country developed, utility companies became larger and larger until finally big companies were formed to buy out and operate a number of small companies.

At first this growth took the form of the consolidation and operation by one big company of what had been a number of small companies in contiguous territory.

The Development of Holding Companies

Later, big companies were organized to buy up gas and electric companies in various parts of the country. These companies did not actually operate the various companies they bought. They merely bought a majority of the stock in the operating companies and thus controlled them. Such companies came to be known as "holding companies" because they hold control of the stock of the companies which actually produce and sell to the public gas and electricity for domestic and commercial use.

The complaint against the holding company, in brief, is that it takes all the profit out of the actual operating companies which it controls and thereby forces the operating companies to charge higher gas and electric rates to their patrons than they would charge if allowed to keep their profits; that it looks upon the operating company merely as a money-making institution and has no regard for the interests of the consumers served by the operating company.

President Roosevelt and the Power Problem

Impetus to the attack on holding companies was given by President Roosevelt when he declared, in speeches during his campaign for the Presidency in 1932, that the electric power problem was one of the most important problems the country was facing and pledged himself to see that the power resources of the country would be used for the benefit of the public by Government development and operation where private companies refused to give "reasonable and good service."

As shown in the Chronology on page 135, Congress had begun to consider the problem before Mr. Roosevelt became President, but the fact that the power question was one of the principal interests of the President, served to increase Congressional activity.

The Wheeler-Rayburn Bill

The creation of the Tennessee Valley Authority (TVA) was designed to set up Government competition against privately owned and operated utility companies with a view to forcing the private companies to give better and cheaper service. It was aimed at the operating companies rather than at the holding companies.

Railroad holding companies were dealt with in a special amendment to the Transportation Act and holding companies in other fields were dealt with in the Securities Act (see Chronology, page 135).

The pending Wheeler-Rayburn bill (S. 1725 and H. R. 5423) was designed specifically by Administration experts collaborating with Senator Wheeler and Representative Rayburn, to deal with the power utility holding companies.

Title I of the Wheeler-Rayburn bill deals solely with the holding company question.

Title II deals with Federal regulation of electric utility operating companies, whether they are affiliated with holding companies or not.

Title III deals with Federal regulation of gas companies.

The principal controversy over the legislation, however, is over the holding companies and it is to this phase of the question that this number of the Digest is devoted.

As the Digest goes to press the House Committee on Interstate and Foreign Commerce, having completed its hearings, is at work preparing a report on the Wheeler-Rayburn holding company bill.

That the bill will be greatly modified by the Committee seems certain.

The Senate Committee on Interstate Commerce is continuing its hearings, with the opponents being heard.

The chances of final passage of the bill at this session of Congress are decidedly uncertain.

The Political Line-Up

The political line-up on the bill, as evidenced by questions and comments from members of the House Committee on Interstate and Foreign Commerce during the hearings, shows that the Democrats are in favor of the elimination of holding companies and the Republicans are against it. There are exceptions on both sides, but the general line-up is as indicated.

As the following quotations show, the platforms of both parties in 1934 declared for regulation of power public utilities, but neither advocated the elimination of holding companies:

In the Democratic Platform

"We advocate the conservation, development, and use of the nation's water power in the public interest.

"The removal of government from all fields of private enterprise except where necessary to develop public works and natural resources in the common interest.

"We advocate protection of the investing public by requiring to be filed with the government and carried in advertisements of all offerings of foreign and domestic stocks and bonds true information as to bonuses, commissions, principal infested, and interests of the sellers.

"Regulation to the full extent of Federal power of

"(a) Holding companies which sell securities in interstate commerce;

"(b) Rates of utility companies operating across state lines;

"(c) Exchanges in securities and commodities."

In the Republican Platform

"Supervision, regulation and control of interstate public utilities in the interest of the public is an established policy of the Republican Party, to the credit of which stands the creation of the Interstate Commerce Commission with its authority to assure reasonable transportation rates, sound railway finance and adequate service.

"As proof of the progress made by the Republican Party in government control of public utilities, we cite the reorganization under this (the Hoover) Administration, of the Federal Power Commission with authority to administer the Federal Water Power Act. We urge legislation to authorize this Commission to regulate the charges for electric current when transmitted across state lines."

How to Study Pending Legislation

To analyze a legislative problem properly it is necessary to begin at the beginning. For this reason the CONGRESSIONAL DIGEST arranges the contents of each number in consecutive order and the student will obtain the best results by reading the articles in the order in which they appear.

First, the Chronology of Congressional action on the subject, on page 135, furnishes sufficient background to explain the present legislative situation. In the glossary on page 136, will be found the definition of a holding company and other technical terms used in the discussion of the subject.

By reading President Roosevelt's message on page 137, to Congress recommending the passage of holding company legislation, the recommendations of the Power Policy Committee on page 138, and the summary of the provisions of the Wheeler-Rayburn bill on page 139, the student will inform himself of the Administration's aims.

He may then turn to the Pro and Con section with a better understanding of the arguments there presented. References for supplemental reading on the subject will be found on page 158.

As brought out in the Committee hearings and in general discussion of the holding company question, the following appear to be the leading arguments for and against the pending legislation:

A Summary of the "PRO" Arguments

1. Under the present system of operation of gas and electric companies the cost to the consumer is entirely too high in comparison with the cost of production.

2. The reason for the high rates is that the large majority of gas and electric companies are controlled by holding companies whose owners have no interest in the different communities served by the companies. Their sole interest is to obtain profits on their investments.

3. The only way to control the situation in the interest of the consumers of gas and electricity and the interests of citizens who have purchased stock in gas and electric utility companies is to abolish the holding company.

4. The Wheeler-Rayburn bill should be passed because it eliminates the holding company and because it provides for Federal regulation of the rates of utility operating companies.

5. By this Government rate regulation, the costs of production and distribution of gas and electric power would be honestly determined. The stockholders in utility companies would be guaranteed a fair return on their investment and the consumers would be guaranteed an honest rate.

6. The control of a local utility company would be exercised in its locality instead of from a far-distant point by absentee ownership.

7. Utilities must be regulated by the Federal Government because states are powerless to regulate them, except in the case of those utilities whose service is entirely intra-state because they cannot enact laws affecting interstate commerce and, therefore, cannot reach the holding companies.

8. If holding companies are permitted to remain in existence the utility companies of the country will eventually come under control of a few gigantic corporations owned by a handful of financiers who will have the consuming public at their mercy with the inevitable result of increased rates.

A Summary of the "CON" Arguments

1. The actual records of the gas and electric utility companies prove that rates are constantly being lowered.

2. The principal reason for high rates, wherever they exist, is initial outlay on the part of the utility companies. As the number of consumers grows in each locality and the company recovers the cost of building lines and installation service, the rates are always lowered.

3. If the holding companies are abolished, many small utility companies will be forced out of existence since they depend upon the financial and engineering resources of the holding companies to keep them alive until they reach a paying basis.

4. The Wheeler-Rayburn bill should not be passed, because by eliminating the holding companies it will make

Continued on page 160

Recent Efforts by Congress to Curb Holding Companies

1928—The Senate adopted a resolution introduced by the late Thomas J. Walsh, Montana, Democrat, directing the Federal Trade Commission to investigate public utility companies. The Commission made a number of reports to Congress as a result of this resolution.

This marked the first step taken by Congress to deal with the control of public utility companies by large financial organizations.

1930—The House adopted a resolution instructing the House Committee on Interstate and Foreign Commerce to investigate railroad holding companies. This resolution was followed by subsequent resolutions authorizing the same Committee to investigate gas and electric companies.

1935—On January 11, Representative Sam Rayburn, Texas, Democrat, chairman of the House Committee, made a statement, the following extracts from which summarizes the results of these investigations up to the introduction of the pending utility holding company bill:

1. Railroad Holding Companies

"Pursuant to House Resolution 114, Seventy-first Congress, second session, an investigation of railroad holding companies was made. The report of this investigation, entitled 'Regulation of Stock Ownership in Railroads,' and containing three parts, was submitted to the Congress on February 20, 1931. As a result of this investigation and report a bill was prepared by the committee—H. R. 9059, Seventy-second Congress, first session—which was later incorporated in title II of the Emergency Transportation Act of 1933—S. 1580, Seventy-second Congress, first session—which was approved by the President June 16, 1933.

2. Oil Pipe Lines

"By authority of House Resolution 59, Seventy-second Congress, first session, an investigation of oil pipe lines was made. The report in this investigation, entitled 'Report on Pipe Lines, containing two parts, was submitted to the Congress on March 2, 1933.

3. Power and Gas Companies

"Pursuant to House Resolution 59, Seventy-second Congress, first session, and House Joint Resolution 572, Seventy-second Congress, second session, an investigation has been made of holding companies in power and gas. The report in this investigation is divided into six parts. Part I, entitled 'Report on Directors and/or Officials of Holding Companies and Operating Companies in Power and Gas,' was submitted to the Congress on February 21, 1934. The remaining parts, II to VI, inclusive, are now in the hands of the printer and will be submitted in the near future.

4. Communication Companies

"Pursuant to House Resolution 59, Seventy-second Congress, first session, and House Joint Resolution 572, Seventy-second Congress, second session, an investigation has been made of communication companies. The report in this investigation is divided into three parts. Part I, the preliminary report, was submitted to the Congress on April 18, 1934. Parts II and III, making the completed report, were submitted as of June 4, 1934. On that date part II was distributed. The Government Printing Office now has part III practically ready for distribution. In connection with the investigation and report, the Communications Act of 1934 became law on June 19, 1934, when the President approved S. 3285.

"In view of the extensive investigations of this industry by the Federal Power Commission and the Federal Trade Commission, involving an aggregate expenditure of $4,514,368.24 in the power field, your committee limited their inquiry to obtaining an overall picture of the power industry and relations between the holding companies and the operating companies. The committee made an intensive study of some of the holding companies at the top of such systems as the Insull set-up. The greater part of our funds were expended on the holding-company inquiry in utilities other than power companies. The committee first made a comprehensive and detailed study of the railroad holding companies. Based upon the disclosures in that investigation, the committee recommended a bill to regulate the railroad holding companies. This bill was incorporated as a part of title II of the Transportation Act of 1933, and on June 16 of that year became law.

"Another comprehensive inquiry was made of the stock ownership and control of oil pipe-line companies. This report in two volumes you received in this House on March 2, 1933. This report has been of great assistance to the committee in dealing with the various bills that had been referred to the committee, which were drawn with a view of further regulating oil pipe lines. That report called for a further study of the oil industry itself if there should be complaint that the legislatures in the oil-producing States were not adequately coping with the problems of conservation. As a result of complaints brought to our attention, the committee recommended House Resolution No. 441, Seventy-third Congress, second session. Under this resolution a subcommittee has made a most thorough inquiry into the conditions surrounding production and distribution of petroleum and its products.

"The committee has completed an investigation of the stock ownership and control of natural-gas pipe lines, which will be distributed within a few days. The Interstate Commerce Act exempts gas pipe lines from common carriers—that is, a gas pipe line is not in the law classified as a common carrier. As a result of our study, we find that this classification of gas pipe lines by the Congress was correct. The investigation discloses that natural gas is now carried direct from nature's reservoir in the earth through the casing in the gas wells through pipe lines to consumers in the villages, towns, and cities of

the several states. When a reservoir of natural gas is connected by an interstate pipe line with the cook stoves, water heaters, refrigerators, and furnaces of consumers in different states, the gas in the field is placed in interstate commerce."

On February 6, 1935, Senator Burton K. Wheeler, Montana, Democrat, Chairman of the Senate Committee on Interstate Commerce, and Representative Rayburn, introduced identical bills for the abolition of utility holding companies, the regulation of electric utility companies and gas companies.

The House Committee held hearings from February 19 to April 15.

On March 14 President Roosevelt sent to Congress a report on utility holding companies by the National Power Policy Committee.

On April 16 the Senate Committee on Interstate Commerce began hearings on the Wheeler-Rayburn bill.

Glossary of Technical Terms Used in Discussing Holding Companies

Charter—A legal document issued by a government granting and defining certain rights or privileges. Under the Federal and State laws a corporation has to obtain a charter before it can operate.

Corporation—A body or organization authorized by law to act as an individual.

Federal Power Commission—A Federal Commission having administrative control over the power sites of the United States.

Federal Securities Commission—A Federal Commission created by Congress in 1934 to regulate transactions in securities.

Federal Trade Commission—A Federal Commission created by Congress in 1914 to prevent unfair practices in interstate commerce.

Holding Company—A company the business of which is to own the stocks or securities of other companies, the interest on dividends upon which constitute the income of the holding company.

The official definition of holding company as given by Interstate Commerce Commissioner Walter M. W. Splawn, follows:

"The holding company may be defined as any company which by virtue of its ownership of securities, is in a position to control or substantially influence the management of one or more other companies. That is, a holding company is different from a mere investment company, An investment company buys securities as an investor would do and without any purpose of determining the policy of the management. But when a company by virtue of its ownership of securities is in a position to control or substantially to influence the management of another company it is properly classified as a holding company."

Investment Company—A company whose business it is to deal in investments, including securities, etc.

Monopoly—The exclusive right, privilege, or power of selling or purchasing a given commodity or service in a given market; exclusive control of the supply of any commodity or service in a given market; hence, often in popular use, any such control of a commodity, service, or traffic in a given market as enables the one having such control to raise the price of a commodity or service materially above the price fixed by free competition. At the common law the term *monopoly* was specifically applied to an exclusive privilege of trade created by state grant or charter, and the term is still sometimes so used. Exclusive control of traffic constitutes a monopoly in the economic sense, whether acquired by state grant (as in case of patents or copyright, which are statutory exceptions to the common-law rule making monopolies illegal), by control of sources of supply (as in case of mines), by engrossing an article (as in case of cornering the market) by combination or concert of action, or by any other means. (Webster.)

Mutual Service Company—See Service Company.

National Power Policy Committee—A committee appointed by President Roosevelt to study the power resources of the United States and recommend a Federal power policy. (See page 138.)

Natural Monopoly—(See *Monopoly*.) Natural resources, that is considered best operated without competition as in the case of gas or electricity. It is generally accepted that a community obtains better gas or electric heating and lighting service from a single gas or electric company than from two or more competing companies.

Operating Company—A company which operates a business or service. A utility operating company is one which actually operates the utility.

Public Utility—A service for public use, as a railroad, a street car or bus service, a telegraph service, a gas or electric heating or lighting service, etc.

Public Utility Company—Under the terms of the Wheeler-Rayburn bill.

Security—Securities—An evidence of property, as a bond, or stock certificate.

Service Company—A service company under the terms of the Wheeler-Rayburn bill is a company usually owned by the holding company, as for example, an engineering company or a coal company.

A *Mutual Service Company*, as permitted under the Wheeler-Rayburn bill, is a service company operating without profit to serve a number of utility companies.

Sub-Holding Company—An intermediary holding company between a top holding company and its utility companies. For example, a sub-holding company might own two or three operating companies and, itself, be one of several sub-holding companies, all owned by a large holding company.

Upstream Loan—A loan from an operating company to the holding company which controls it. Upstream loans are forbidden by the Wheeler-Rayburn bill on the ground that they deplete the financial reserves of the operating company and injure the interests of the operating company's stockholders.

President Roosevelt Stresses the Need for Holding Company Legislation

On March 12, 1935, President Roosevelt sent to Congress the following message, accompanied by the report on proposed holding company legislation: *To the Congress of the United States:*

I am transmitting to you herewith a report submitted to me by the National Power Policy Committee. I named this Committee last summer from among the Departments of the Government concerned with power problems to make a series of reports to coordinate Government policy on such problems. This report I am submitting to you is the recommendation of the Committee with respect to the treatment of holding companies in the public-utility field. It deserves the careful attention of every Member of the Congress.

The so-called "Public Utility Holding Company Bill" (title I of House bill 5423 and of Senate bill 1725), which was drafted under the direction of congressional leaders incorporates many of the recommendations of this report.

I have been watching with great interest the fight being waged against public-utility holding-company legislation. I have watched the use of investors' money to make the investor believe that the efforts of Government to protect him are designed to defraud him. I have seen much of the propaganda prepared against such legislation—even down to mimeographed sheets of instructions for propaganda to exploit the most far-fetched and fallacious fears. I have seen enough to be as unimpressed by it as I was by the similar effort to stir up the country against the Securities Exchange bill last spring. The Securities Exchange Act is now generally accepted as a constructive measure, and I feel confident that any fears now entertained in regard to proposed utility holding-company legislation will prove as groundless as those last spring in the case of the Securities Exchange Act.

So much has been said through chain letters and circulars and by word of mouth that misrepresents the intent and purpose of a new law that it is important that the people of the country understand once and for all the actual facts of the case. Such a measure will not destroy legitimate business or wholesome and productive investment. It will not destroy a penny of actual value of those operating properties which holding companies now control and which holding-company securities represent insofar as they have any value. On the contrary, it will surround the necessary reorganization of the holding company with safeguards which will in fact protect the investor.

We seek to establish the sound principle that the utility holding company so long as it is permitted to continue should not profit from dealings with subsidiaries and affiliates where there is no semblance of actual bargaining to get the best value and the best price. If a management company is equipped to offer a genuinely economic management service to the smaller operating utility companies it ought not to own stock in the companies it manages, and its fees ought to be reasonable. The holding company should not be permitted to establish a sphere of influence from which independent engineering, construction, and other private enterprise is excluded by a none too benevolent private paternalism. If a management company is controlled by related operating companies, it should be organized on a truly mutual and cooperative basis and should be required to perform its services at actual cost demonstrably lower than the services can be obtained in a free and open market.

We do not seek to prevent the legitimate diversification of investment in operating utility companies by legitimate investment companies. But the holding company in the past has confused the function of control and management with that of investment and in consequence has more frequently than not failed in both functions. Possibly some holding companies may be able to divest themselves of the control of their present subsidiaries and become investment trusts. But an investment company ceases to be an investment company when it embarks into business and management. Investment judgment requires the judicial appraisal of other people's management.

The disappearance at the end of 5 years of those utility holding companies which cannot justify themselves as necessary for the functioning of the operating utility companies of the country is an objective which congressional leaders I have consulted deem essential to a realistic and farsighted treatment of the evils of public utility holding companies. For practical reasons we should offer a chance of survival of those holding companies which can prove to the Securities and Exchange Commission that their existence is necessary for the achievement of the public ends which private utility companies are supposed to serve. For such companies, and during the interim period for other companies, the proposal for a comprehensive plan of public regulation and control is sound.

But where the utility holding company does not perform a demonstrably useful and necessary function in the operating industry and is used simply as a means of financial control, it is idle to talk of the continuation of holding companies on the assumption that regulation can protect the public against them. Regulation has small chance of ultimate success against the kind of concentrated wealth and economic power which holding companies have shown the ability to acquire in the utility field. No Government effort can be expected to carry out effective, continuous, and intricate regulation of the kind of private empires within the nation which the holding-company device has proved capable of creating.

Except where it is absolutely necessary to the continued functioning of a geographically integrated operating utility system, the utility holding company with its present powers must go. If we could remake our financial history in the light of experience, certainly we would have

none of this holding-company business. It is a device which does not belong to our American traditions of law and business. It is only a comparatively late innovation. It dates definitely from the same unfortunate period which marked the beginnings of a host of other laxities in our corporate law which have brought us to our present disgraceful condition of competitive charter-mongering between our States. And it offers too well-demonstrated temptation to and facility for abuse to be tolerated as a recognized business institution. That temptation and that facility are inherent in its very nature. It is a corporate invention which can give a few corporate insiders unwarranted and intolerable powers over other people's money. In its destruction of local control and its substitution of absentee management, it has built up in the public-utility field what has justly been called a system of private socialism which is inimical to the welfare of a free people.

Most of us agree that we should take the control and the benefits of the essentially local operating utility industry out of a few financial centers and give back that control and those benefits to the localities which produce the business and create the wealth. We can properly favor economically independent business, which stands on its own feet and diffuses power and responsibility among the many, and frowns upon those holding companies which, through interlocking directorates and other devices, have given tyrannical power and exclusive opportunity to a favored few. It is time to make an effort to reverse that process of the concentration of power which has made most American citizens, once traditionally independent owners of their own businesses, helplessly dependent for their daily bread upon the favor of a very few, who, by devices such as holding companies, have taken for themselves unwarranted economic power. I am against private socialism of concentrated private power as thoroughly as I am against governmental socialism. The one is equally as dangerous as the other; and destruction of private socialism is utterly essential to avoid governmental socialism.

FRANKLIN D. ROOSEVELT.

The WHITE HOUSE, *March 12, 1935.*

The National Power Policy Committee

ON July 16, 1934, President Roosevelt established in the Public Works Administration the "National Power Policy Committee."

Secretary of the Interior Ickes was named Chairman of this Committee, the membership of which is composed of:

Dr. Elwood Mead, of the Bureau of Reclamation.

Frank R. McNinch, Chairman of the Federal Power Commission.

Morris L. Cooke, Mississippi Valley Committee, PWA.

Major General Edward M. Markham, Chief of Engineers, War Department.

Robert E. Healy, Federal Stock Exchange Commission.

David E. Lilienthal, of the Tennessee Valley Authority.

T. W. Norcross, Assistant Forester, Forest Service.

Joel David Wolfsohn, Executive Secretary.

In the following letter from the President to Secretary Ickes under date of July 9 the purpose and duties of this Committee are outlined:

"I wish to establish in the Public Works Administration a Committee to be called the 'National Power Policy Committee.' Its duty will be to develop a plan for the closer cooperation of the several factors in our electrical power supply—both public and private—whereby national policy in power matters may be unified and electricity be made more broadly available at cheaper rates to industry, to domestic and, particularly, to agricultural consumers.

"Several agencies of the government, such as the Federal Power and Trade Commissions, have in process surveys and reports useful in this connection. The Mississippi Valley Committee of Public Works is making studies of the feasibility of power in connection with water storage, flood control and navigation projects. The War Department and Bureau of Reclamation have under construction great hydro-electric plants. Representatives of these agencies have been asked to serve on the committee. It is not to be merely a fact-finding body, but rather one for the development and unification of national power policy.

"As time goes on there undoubtedly will be legislation on the subject of holding companies and for the regulation of electric current in interstate commerce. This committee should consider what lines should be followed in shaping up this legislation. Since a number of the States have commissions having jurisdiction over interstate power matters, it is necessary that whatever plan is developed should have regard to the powers of these various State commissions as well as the States in general."—*Extracts, see 1, p. 160.*

Suggestions in the Committee's Report

IN its report to the President the National Power Policy Committee made the following suggestions for provisions in holding companies legislation:

1. The practical elimination of the holding company "within a reasonable time" where it serves no demonstrably useful purpose.

2. The appointment of a Federal Commission, with which every holding company shall be required to register all the details of its business.

3. The supervision by the Commission of the issue of all securities by holding companies.

4. Prohibition of the acquisition of new securities and other properties by holding companies without the approval of the Commission.

5. The restriction of holding companies "as soon as possible" to the business of operating and of owning the securities of utility properties and the forbidding of their engagement in non-utility and speculative ventures.

6. The immediate prevention of holding companies from borrowing from sub-holding companies or from operating companies in the same holding company system.

7. The careful scrutiny and publication of all other loans and transactions within the systems and with affiliated interests and the fees paid in connection with such transactions.

8. The immediate requirement that the holding company divest itself of any interest in the business of issuing, underwriting and creating new security issues for itself or controlled companies and be prohibited from deriving fees or commissions from security transactions.

9. All service, sales and construction contracts not performed by independent companies should be performed by companies or associations organized on a strictly mutual basis to insure the performance of their work at cost.

10. Holding companies to be required to make periodic reports on their own and their subsidiaries financial conditions and costs.

11. The Commission should be required to study existing utility systems with a view to their simplification "by the elimination of unnecessary corporate complexities and of properties which do not fit into an economically and geographically integrated whole."

12. The partial removal of the exemption, under the revenue act, for dividends received by corporate holding companies and affiliates on the securities of public utility companies and other holding companies.

The Wheeler-Rayburn Bill

On February 6, 1935, Representative Sam Rayburn, of Texas, Democrat, introduced in the House H. R. 5423 for the control of holding companies. The bill was referred to the Committee on Interstate and Foreign Commerce, which held hearings from February 19 to April 15. On February 6, Senator Burton K. Wheeler, of Montana, introduced an identical bill in the Senate, which was referred to the Committee on Interstate Commerce, of which Senator Wheeler is chairman. Hearings were begun by the Senate Committee April 16.

The Wheeler-Rayburn bill has three parts or titles. Title I deals with public utility holding companies; Title II deals with the interstate transmission of electricity; and Title III with the transmission of gas.

The bill is extremely long and the following summary serves as a guide to the provisions of Title I:

Section 1 sets forth, as reasons for the act, that public utility holding companies are affected by the national public interest because their securities are distributed through the mails and instrumentalities of interstate commerce and because their activities, being distributed over many states, are not susceptible to effective state regulation.

This section declares, also the legislative policy to be "that of eliminating the evils connected with the public utility holding company, and, in order to effectuate such a policy, to compel the simplification of public utility holding company systems and the elimination therefrom of properties not economically and geographically related in operations, and to provide for the abolition of the holding company at the end of five years."

Section 2 defines the terms used in the bill.

Section 3 establishes the mechanism by which holding companies are brought under the jurisdiction of the Securities and Exchange Commission, provides for registration with the Commission of every holding company that has outstanding any securities offered since 1925, and gives the Commission authority to exempt from registration utility companies whose business is wholly intrastate.

Section 4 sets up the machinery for registration and describes the necessary procedure.

Sections 5 and 6 set forth the rules under which holding companies may issue securities.

Section 7 provides for the restriction of the activities of holding companies designed (1) to confine their activities to the operation of gas and electric utilities and to the holding of securities of such utilities, (2) to prevent indiscriminate combination of domestic and foreign utilities and (3) "to prevent the use of the holding company to deny to the public the widespread and economic use of both natural gas and electric energy merely because it is to the selfish advantage of a given company to foster the use of one of its products as against the other and deprive the public of the benefits of the competition between the two."

The restrictions of this section are to go into effect January 1, 1937.

Section 8 makes it unlawful for any registered holding company or subsidiary company to acquire any securities or capital assets of another company without the approval of the Commission.

Section 9 prescribes the procedure for application by holding companies for the Commission's approval of the acquisition of securities and capital assets.

Section 10 requires the simplification of existing holding companies and their liquidation by January 1, 1940, and provides for this procedure under the supervision of the Commission.

Section 11 provides for the regulation of inter-company transactions pending liquidation of holding companies.

Section 12 makes it unlawful for a registered holding company or subsidiary to enter into service, sales or construction contracts with any company in the same system without the approval of the Federal Power Commission. The object of this section is to prevent the holding company from forcing an operating company to buy equipment or service from a company also owned by the holding company.

Section 13 provides for the filing with the Securities Exchange Commission by holding companies of periodic and special reports.

Section 14 provides for a uniform accounting system by registered holding companies.

Section 15 imposes civil liability for false statements contained in holding company declarations filed with the Commission.

Section 16 requires reports by the Commission on its investigations and findings.

The remaining sections—17 to 33—contain the administrative provisions of the bill covering the procedure of the Commission, etc. Section 29 directing the Federal Power Commission to study and investigate public utility companies with a view to improving their operation in the public interest.

Should Power Utility Holding Companies be Abolished?

PRO — **Affirmative**

★ *Senator Wheeler contends that the abolition of the holding company will remove a parasitic growth from operating companies and result in sounder utility securities and cheaper rates.*

by

Hon. Burton K. Wheeler

U. S. Senator, Montana, Democrat

As I read the reports of various Government bodies and investigators, the examples of profit-making out of gross abuse of the control which public utility holding companies exercised are so numerous, so varied and so widespread that it is an impossible task to select a few examples which could tell the whole story.

Now I am not citing these sins of the holding companies as moral sins—to incite wrath because of past wrongs. I am citing them as economic sins—as unsound scalping operations by which holding companies had to try to earn interest on their bonds and dividends on their stocks—as a revelation of the fundamentally insecure and unsound kind of business this holding company business is. That revelation has a real relationship to the present position of the investor who holds holding company securities today, and the investor's present position has to be appraised before the effect of the pending holding company bill on that position can be discussed.

An investor in a type of company that originated in stock jobbing or in a company that has had to make its living by the milking of operating companies and the public—an investor in that kind of a company has already been plucked—legislation or no legislation. Even the representatives of holding companies who have appeared before the House Committee, in opposition to the bill admit that this security jobbing and this subsidiary milking has got to end. And if these sources of income have got to end, the holding companies have got to go through an extensive period of reorganization whether the Government compels that reorganization or not. Holding company managers are keeping the support of the investors, whose help they need to bring pressure on Congress to save the jobs of those managers, by carefully keeping alive the illusory hope that if the Government can only be held off from its program of requiring an intelligent reorganization of the utility industry, the stock market quotations of all the holding company securities held by investors will within the next few years come back to what those investors paid for them and everything will be fine. But that is an illusory hope. Everything cannot be fine.

Whether the holding companies in the aggregate may at one time have contributed much to the standardization and development of a once infant industry is now beside the point. The operating industry is now grown up and except where the holding company serves a necessary function in relation to a geographically and economically integrated system of operating companies, the holding company has no sound economic basis. Like all other things uneconomic, therefore, it will eventually get into trouble. We are heading for a period of reorganization in the utilities comparable to that which we have periodically gone through with the railroads. Only an immediate constructive reorganization of the holding structures will avert aggravated casualties in the not distant future. If we are wise we will profit by our mistakes in the railroad field where a first inadequate reorganization only too frequently sowed the seeds that made necessary subsequent reorganizations at the further expense of the investor.

The Government didn't do anything to make Insull crash. The Government didn't do anything to make Foshay crash. The Government didn't do anything to bring about the proceedings by which security-holders are now trying to force Associated Gas & Electric Company into bankruptcy. On the average the present market prices of the securities of even the supposed best holding companies reflect a drop far greater in proportion than the drop in almost any other class of security.

The stocks of many of these companies had dropped before this bill was introduced to about one-tenth of the low point they reached in 1929, immediately after the crash. Most of them had been selling last year at not more than one-twentieth of their 1929 high. Electric Bond and Share, United Corporation, and United Light and Power are selling at one-fortieth to one-hundredth of their 1929 highs. The Government is not responsible for these losses. That responsibility lies on the heads of the holding company managers and their bankers who sold the public the pot of gold at the end of the rainbow.

Even where the holding company is in no danger of insolvency, those holding company managers who read the signs of the times know that, irrespective of legislation, public opinion and economic pressures will force reorganizations where the holding company's corporate structure is complicated and confused, where there is a lack of any geographic and economic relation among the controlled operating properties and where a disproportionately small investment at the top controls tremendous capital investments of other people's money.

All propaganda to the contrary, the Holding Company Bill, helps, not hurts, the operating utility industry.

Despite its ever-deepening troubles with the public in the last few years, the operating utility is a great industry with a great future. Its growth has been only momen-

Pro continued on page 142

Should Power Utility Holding Companies be Abolished?

Negative

CON

★ Mr. Gadsden maintains that the logical outcome of the passage of the Wheeler-Rayburn bill would be Government operation of power utilities as a gateway to the nationalization of other industries.

by

Philip H. Gadsden
Chairman, Committee of
Public Utility Executives

THE public utility holding company bill now pending in Congress, destroys the public utility holding companies and subjects the operating companies to a condition of government management.

You may be one of the ten million people who own five or ten shares of public utility securities; if so, this bill will very largely destroy the value of these securities. You are, I know, one of the 21,000,000 families who use electric current. This bill will impair the service which you are receiving. If this bill passes, every time you use the radio, the curling iron, the washing machine, the electric refrigerator, or the vacuum cleaner, you will do so under strict government supervision, and you will suffer from the inefficiency, the waste and the ultimate high cost of political management.

I do not expect you to believe that at the start. But let us turn to the bill itself and see where it leads: I quote from it as follows:

"It is hereby declared to be the policy of this title, in accordance with which policy all the provisions of this title shall be interpreted, . . . to provide at the end of five years for the abolition of the public utility holding company."

These words are clear and definite. The public utility holding company would be abolished by this bill.

First of all, what is a holding company? It is simply a company which owns the stock of another company. It is not a new type of organization; it has existed for many years. You probably deal with several of them every day without realizing it; most of the processed foods you buy are from holding companies; your automobile, your oil, and gas, your soap, your paper, your cigarettes, your matches, copper, steel and a hundred other products all probably come from holding companies. And although it may look strange in the light of this bill, the United States Government itself uses holding companies. By executive order of the President of the United States, issued December 19, 1933, the Tennessee Valley Authority formed a holding company, known as the "Electric Home and Farm Authority, Inc."

Obviously therefore, there cannot be anything fundamentally wrong in the holding company principle. It is largely because of the holding company that we have been able to develop an "electrical America". It is largely because of the holding company that rates for residence electricity have steadily declined—the only basic product in the country which has been constantly reduced in cost. These rates are 31 per cent lower than before the war. The average cost of domestic electricity is only 9 cents a day, and the total bill for domestic electricity in the entire country is less than the total tax we pay on gasoline. This undoubtedly accounts for the fact that after seven weeks of hearings before the House Committee on Interstate & Foreign Commerce no one has appeared representing the consumers to protest against any excessive rates which the proponents of this bill claim have been imposed on the consumer by the holding company.

Now it is true that a few holding companies acquired a bad name in the mad days leading up to 1929. There was wild speculation in public utility securities—as in everything else. A great many innocent people lost money. Everybdy knows that, now. Nobody wants it to happen again. To prevent its recurrence, Congress passed the Federal Securities Act of 1933 and the Securities Exchange Act of 1934, designed to protect the investor. If these acts do not protect the investor, they should be amended. If there is any other fair regulation needed for the holding companies, we should have it. The public utility executives have officially stated that they are in favor of reasonable Federal and State regulation. But this bill does not regulate, it destroys! This bill is a sentence of death passed on all the members of an industry because of the past sins of a few.

If this sentence is executed, I and my fellow executives are, of course, going to suffer. But that is not the important thing. There are not so many of us. But there are five million individuals who own the securities of public utility holding companies. There are five million more who own the securities of operating companies. The majority of these people have five or ten shares—not much—just what they have been able to save.

If you are one of these people, you are in grave danger; this bill is going to take away most of those savings. I shall try to explain as simply as possible how this would happen:

The principal assets of a holding company are the common stocks of its operating companies. The holding company itself has issued, let us say, bonds, preferred stocks and common stocks. Required to dissolve, it would have to pay off its senior securities—its bonds and preferred stock, in cash. To raise the money for this, it must sell its assets—its operating company stocks—on a market in which all the other holding companies were dumping their operating company stocks. The result would be ruinous. Perhaps the holding company could

Con continued on page 143

Wheeler, *Cont'd*

tarily slowed down by the great depression. Power consumption is already virtually back at the 1929 peak and should grow by leaps and bounds with a further return of general business recovery. The operating utility industry has none of the problems of a competitive substitute like the trucks and busses that have made things so difficult for the railroads. Its present difficulties within itself and with the public are not inherent in its own operations. They arise out of the system of absentee financial control in the form of the holding company which has been superimposed upon those operations.

The interests of the great proportion of American investors lie with this operating industry, not with the holding companies. The holding company managers and their bankers are trying to make the American investor believe that his only interest in the utility industry is his interest in the utility holding company. This may be true in the case of particular investors, but it is far from being true as to the largest part of the stake of the American investor in the industry.—*Extracts see 2, p. 160.*

▼

by Hon. Sam Rayburn,

Texas, Democrat

★ *Representative Rayburn demands that secrecy as to the cost of production of electric power be removed by the abolition of the holding company.*

THE holding company has developed to where control is exercised through a maze of intercorporate relationships, impossible to be understood by the ordinary man. The holding-company device has been pyramided to give a few small but powerful groups control of the billions of dollars of the public's money invested in the utility industry. This has placed the great utility properties of the country in the control of men who themselves have only a small stake in their real ownership and who have shown neither prudence nor capacity in the management of these properties.

A corporation, as we know, is a company chartered by authority of a legislature. Such a corporation may go into the power business. What is the name of the company from which you get the electricity which is now burning in the lamps in your home? This company to which you pay for the electricity which comes through the meter into your house owns the electric light plant and the transmission wires bringing the electric energy into your residence. The company itself issues stocks and bonds. It was through the sale of these stocks and bonds that the company got the money to build its power house and to lay its cables. But a holding company does not own a power plant. It is a company which holds—that is, buys—the stocks or bonds of power companies which do operate plants and lighting systems. Your electric-light company has an office in your home town. But very likely the company in your home town is itself owned by another company called a "holding company", which may be in Chicago or New York. A holding company with its office in New York may not own any property at all except the stock certificates issued by electric-light companies. The holding company buys these stock certificates not for an investment as a savings bank or an insurance company would buy them, but for the purpose of controlling the policies of the operating companies. That is, the manager of the holding company, because his company owns the voting stock of 100 electric-light companies, can appoint the manager of each electric-light company. The manager of the electric-light company in your town is perhaps appointed to his position by the officers of some holding company in New York City.

The manager of the holding company becomes the big boss for all the electric light compainies which are controlled by the holding company. The controlling figure appoints the presidents and managers of each electric light company and he tells them what to do. They cannot have any money for improvements without getting it through the master in the far-away city. When the manager of your local electric light company needs a new lynamo in the power plant, or the money to extend cables in a new addition in your town, he has to take the matter up with the supermanager in a holding company in another city.

This big boss tells him whether or not he can have the money to use in your town, how much can be used, what is to be bought with it, and more importantly, from whom he is to make the purchase, and how much he is to pay. Now if the top man is interested in a factory manufacturing the machinery your electric light plant needs, he can make the manager of the company in your home town buy the machinery from the factory belonging to the big boss at the price he fixes. If the big boss in the far-away city charges the electric light company in your home town more for the machinery than it is worth, nobody knows it. Then when your city council fixes the electric light rates you shall pay, it has to fix them so that your company can pay the high price for the machinery which the chief of the holding company made it buy. If the holding company controls enough electric light plants in enough towns and cities, it can, in various ways, make them pay millions of dollars into the holding company.

Because the dealings of the holding company with the operating companies are secret, it is natural that loose and careless practices will develop, and sometimes frauds are perpetrated against whole communities. That is why I have introduced a bill into the House of Representatives. It is in order that you may know the price you pay for the electricity that lights your lamps, and the gas that cooks your food is a fair price; and that if you have saved $100 or $1,000, and bought a share of stock or a bond of your local light company, or of your gas company, that your investment will be protected from possible mismanagement or fraud originating in the secrecy of a holding company.

The electric-light and the gas plants have a value on the books of the companies of about $20,000,000,000. There are over 2,000 operating companies which own

Pro continued on page 144

Gadsden, *Cont'd*

raise enough to pay off its bonds. In some cases, its preferred stockholders might get only a part of their investment, but the common stockholders in many cases may lose everything.

In the face of all this, certain government officials have actually sought to assure the people of this country that this bill would mean no loss to investors, and they have pointed out that there is a five-year period of grace before the holding company must be dissolved; they have talked about some kind of trustee arrangements, perhaps as in a receivership, under the tender care of the U. S. courts, to protect the investor. But the American people must not be deceived by this. You cannot dissolve a holding company without selling its assets; you cannot sell the assets without finding a purchaser; you cannot find a purchaser at a fair price when all the assets must be sold before a certain time in a glutted market.

This is the fact, no matter how the proponents of this bill may try to obscure it. In the seven weeks of hearings which the House Interstate & Foreign Commerce Committee has been holding on this bill, public utility executives, bankers, economists and investors have testified as to the ruinous effects which the bill would have upon investments.

The President of a life insurance company has stated that his company, like other life insurance companies, has substanial investments in the stocks and bonds of utility operating and holding companies, and that the effect of this bill would be to "destroy all such utility holding companies and, in large part, to destroy the investments made in good faith by this company."

It is not surprising, then, that hundreds of thousands of letters from men and women all over the country have poured in upon Congressmen protesting against this bill.

And these people have reason to protest. In the first two weeks after the bill was introduced in Congress, the value of public utility securities declined $100,000,000. If the bill should be passed as written, the slump in the stock markets would constitute a financial catastrophe!

But the destruction of the holding company is not all that this bill requires. There is another section which places the operating companies under the virtual management of a government agency, the Federal Power Commission. The operating companies are, of course, already under the regulation of the State public service commissions. Their business is almost wholly within the State. But under this bill the ancient doctrine of States' rights is thrown into the waste basket. The State public-service commissions, which are intimately familiar with local conditions, must hand over their authority to a remote bureau in Washington.

But not only are the powers of the State Commissions transferred to Washington; those powers are, in addition, vastly increased. The Federal Power Commission has jurisdiction over all methods of production and transmission. Without the approval of this government agency, a utility cannot extend its lines, cannot sell or lease property, cannot engage in contracts for legal, engineering and financial services. At the order of this agency, a utility must make additions or improvements whether it has the funds or not; it must permit other competing companies or municipal power plants to use its lines. It must surrender almost entirely private initiative and independent management. It cannot even resort to the courts for protection because the findings of fact of the Federal Power Commission are conclusive.

It is when we reach this part of the bill that its real purpose becomes clear, namely, to force government ownership. And government ownership in the light and power industry would be the gateway to the nationalization of other industries.

First, the operating companies are to be weakened, if not crippled, by dissolving the holding companies. Then they are to be tied hand and foot under the control of the Federal Power Commission.

Under those conditions it is difficult to believe that the industry can survive as a privately operated enterprise.

If the American people want government ownership, they should, of course, get it. But they should not be led into it against their will because of failure to understand this bill.

I feel the importance of this question very deeply. If this bill represented fair and reasonable regulation—and such a regulation has been suggested by public utility executives and other witnesses at the House hearing—then I would not be talking against it. But this legislation is destructive and not regulatory. It destroys, first of all, the utility holding companies—that is, its express purpose.

It destroys private, independent management of operating companies and substitutes government management.

It destroys the investments and savings of millions of people.

It destroys the rights of the States to regulate intrastate activities.

What I have said is what I believe to be true. The Government will call it propaganda; they have accused us of using "lying propaganda" several times. They have stated that the letters which so many thousands have written against this bill are merely organized propaganda.

The Administration in discouraging letters from security owners, and even attempting to curtail the constitutional right of petition to Congress, is treading on dangerous ground. Any Senator or Representative who can read even a small number of the thousands of letters sent to Congress, whether they are willing to admit it or not, must realize that these are the tragic and heart-breaking appeals from despairing men and women who fear that Congress will destroy what is left of their savings. No effort on our part could have aroused this protest. It was the introduction of the bill itself that stirred these people to action.

Let us not allow ourselves to be lulled into a false sense of security, especially by any seemingly favorable reports from Washington. Our fight has just begun. The Committee of Public Utility Executives, of which I am Chairman, is doing its utmost to protect the interests of the millions of stockholders, but the success of our efforts will depend upon the continued appeal of an enlightened public opinion, aroused in behalf of those millions of men and women whose savings are in danger of destruction.—

Extracts see 9, p. 160.

Con continued on page 145

these properties in the different towns and cities, serving the countryside throughout our 48 States. Each operating company averages about $20,000,000 of property. Of course, there are some small ones with only $100,000 investment. Then there are great companies which serve cities such as Chicago and which have investments of many millions.

Two thousand companies are not so many to own $20,000,000,000 of property. A company with an average of $20,000,000 is itself a big company. But even those 2,000 companies are not independent. It may surprise you, but about 50 holding companies completely control these 2,000 operating companies. One holding company controls so many operating companies that the grand total value of the properties of all of the companies in that system amounts to $3,000,000,000! That is, just one holding company dominates one-seventh of all the property operated by electric light companies!

And then the banking houses control the holding companies which control the operating companies. One big banking house has an arrangement by which 8 or 10 of these big holding companies are tied together, so that more than one-fourth of the electric light companies in the entire United States are subject to that banking influence!

The holding-company device is so clever that a schoolgirl cannot use her curling iron, a housewife cannot clean her rug with a vacuum cleaner, or preserve her food in an electric refrigerator, a schoolboy cannot turn on a light to read his lesson, and a cook cannot light the gas in her stove without paying tribute to a holding company. The payment of this tribute is indirect. It is included in the rate paid for the lights and the gas. The amount is a secret. One hundred and forty-one million customers of power and light companies are subject to this secret assessment by the management of public-utility holding companies.

All this secrecy must end. The charges for power and gas must be known to be fair and just. The investments in power and gas companies must be safe against the fraud, manipulation, mismanagement, or bad judgment of those sitting in the secret chambers of holding companies.

In 1933 I introduced and Congress passed the Securities Act, which regulates and in many instances controls the issuance of securities. From the Securities Commission the prospective investor can secure the facts about any security that he contemplates buying.

In 1934 I introduced and the Congress passed the stock-exchange bill which controls trading in securities.

With these measures on the statute books and with the proposed bill to regulate holding companies passed, we will have completed a circle, so to speak, of Federal control which will be fair and just to those controlled, and bring about fair dealing by them with the public.

If the holding companies have been listening to public opinion they must know that the public, and the Congress which represents the public, have long been making up their minds—not hurriedly but deliberately—that the abuses of the holding company and the terrific concentration of power it gave to a few bankers and promoters over the all-important power industry and the public can't go on. And if the public-utility holding company ultimately must be eliminated as a practical matter it seemed good sense to put in a deadline of 5 years, so that the industry and the public will both know that there will be a definite end of this holding-company business at some specific time, rather than have it drag on indefinitely and forever.

Most of the regulation provided for in the bill is simply control of a process of rearrangement of properties and simplification of securities, under the supervision of the Securities and Exchange Commission. From all I hear even the holding companies are willing to trust that commission implicitly. I've just pointed out how many of the electric light and power companies in individual localities a few big holding companies control. It's a big job to persuade or make them break up. If we insisted the break-up begin tomorrow and be finished within a year, there would be great complaining that the job couldn't be physically and legally carried out in that time. And there would be a lot in the complaint. But if, on the other hand, we simply provide that they must be broken up at the end of 5 years, the chances are 100 to 1 that nothing will have been done at the end of 4 years or so, and the same cry of impossibility at the end of 5 years will then be raised which would be raised if we tried to force the holding companies to go out of business within a year from today. The only intelligent and practical thing to do, is to provide an adequate period for the break-up process, but also to keep a constant pressure of regulation and taxation on the companies all through that period, to make them carry on a continual process of reorganizing themselves. Then, at the end of 5 years, putting them out of business will not be difficult either for the Government or for their investors.

The rest of the regulatory provisions are to protect the electric light and power companies in everybody's home town from being milked by holding companies during the 5-year break-up period. That really means protecting both the consumer who buys light and power from those local companies, and the people who finance those local companies with their savings. We have to give the public that protection immediately, no matter what we ultimately do with the holding companies.

Holding-company securities today are selling at a very small fraction of the prices at which the public originally bought them—their drop is far greater in proportion than the drop in almost any other class of security, because on the whole they simply were not good securities. The millions of dollars made through the holding companies went to the banker, the stock promoter, and the corporate insider. Thousands of investors throughout the country thought they were putting their money into the industry that brings to you your gas and electricity. But their money went to buy, at fantastic prices, from corporate insiders, utility properties that had already been built. The millions lost by investors in holding-company securities has not been due to the Government, nor will it be due to the bill that I have introduced. It will be due solely to the greed for money and power, to the incompetence and recklessness of those who created and manipulated these holding devices.—*Extracts, see 3, p. 160.*

by The American Liberty League

★ *The Liberty League argues that the dissolution of holding companies, as proposed, would result in such heavy loses to legitimate stockholders as to seriously retard recovery.*

OUTSTANDING among measures receiving serious consideration in the present Congress, the public utility holding company bill, in the form introduced, embodies the most disturbing threat to recovery.

Like the Securities Act of 1933, which was so severe as to hold back the flow of capital necessary to the revival of industry, the pending bill would tend to nullify beneficial effects of activities under other laws.

Regardless of how desirable or even necessary some form of regulation of utility holding companies may be, the bill as presently drafted goes far beyond any reasonable requirement and falls definitely within the danger zone. If enacted in its present form, it would impair the savings of a multitude of investors, throttle individual initiative and add to the powers of a Federal bureaucracy. It would threaten losses running into the billions and involving millions of investors. In part, at least, it typifies misguided zeal for reform of practices already outlawed. It would deal a crushing blow to confidence without which the Nation can not hope for restoration of sound economic conditions. It appears to be designed to bring about government ownership and operation of utilities.

The probable effects of the bill may be summarized as follows:

1. Investments amounting to $2,000,000,000 in securities of public utility holding companies, already seriously affected, would suffer immediate further depreciation, and, upon the compulsory liquidation of these companies within five years, a shocking loss.

2. A considerable part of investments aggregating $10,000,000,000 in securities of public utility operating companies would be jeopardized by their separation from holding companies and by the new and arbitrary methods of regulation imposed by the bill.

3. Values of many additional billions in securities of holding companies in other and varied industries would be menaced by the possibility of a broadening of the ban on this type of corporate structure.

4. Capital, now available to utility operating companies through holding companies, would be difficult to obtain in the light of such new regulatory proposals as the fixing of rates on a basis of "prudent cost" rather than on the basis fixed by the United States Supreme Court, which is "fair present value."

5. If the bill should pass as drawn, the utilities would be forced to secure governmental aid or else to curtail service to consumers and suspend improvements which create employment.

6. Besides being oppressed by government regulation the utilities would be at the mercy of government competition, Federal, state and municipal agencies engaged in the production and distribution of electricity and gas being exempt from the provisions of the bill.

7. Restrictions upon individual initiative, financial handicaps, a new rate-making theory and government competition would tend inevitably toward nationalization of the utility industries.

8. Encroachment upon the authority of the states over purely intrastate business would appear unavoidable through greatly increased Federal control over companies engaging in both interstate and intrastate commerce.

9. Federal jurisdiction over holding companies is assumed regardless of a lack of court decisions assuring the constitutionality of such a step.

10. Taxpayers would bear the cost of an extensive addition to the Federal bureaucracy necessitated by increased powers vested in three government agencies, the Securities and Exchange Commission, the Federal Power Commission and the Federal Trade Commission.

One of the effects of the bill which properly is causing serious concern is its application to industrial holding companies which only incidentally are interested in utility properties. These companies are defined as public utility holding companies under the terms of the bill. They would be forced immediately to liquidate their utility holdings in order to escape drastic regulation and eventual extermination. Such liquidations could not take place without heavy losses.

During the five years or less while public utility holding companies are being liquidated the restrictions imposed upon them could not fail to affect adversely the market values of their securities. It is made unlawful after January 1, 1937, for registered holding companies to have any interest or own any securities in business other than operating or electric companies, business in which under express state approval an operating utility may engage, or business reasonably incidental to the foregoing. It is also made unlawful after that date for a registered holding company or a subsidiary which is operating an electric company to have any interest in a company producing or transporting natural gas in interstate commerce, or to have any interest in an operating company doing business outside the United States except under special conditions. These restrictions for the most part seem unreasonable and arbitrary. They would necessitate extensive liquidations which would have deflationary effects reaching related industries such as street railways, coal production and water works.

It is idle for the proponents of the bill to assert that in the wholesale liquidation attending the dissolution of holding companies all legitimate values would be preserved.

The bill raises the issue of nationalization of public utilities. Industry, to survive in private hands, must be free and unhampered as to management, subject, of course, to a reasonable degree of supervision. The bill so restricts the utilities as eventually to create an impossible situation. The security owners would be helpless, and government ownership and operation would be the only outcome.

Continued on page 147

PRO

by The Power Policy Committee

** The National Power Policy Committee recommends the abolition of the holding company as the only means by which the financing of utility companies may be made open to public scrutiny.*

IN 1925, holding companies controlled about 65 per cent of the operating electric utility industry. By 1932, thirteen large holding groups controlled three-fourths of the entire privately-owned electric utility industry, and more than 40 per cent was concentrated in the hands of the three largest groups — United Corporation, Electric Bond & Share Company and Insull. Even these three systems are not totally independent. United Corporation has a stock interest in Electric Bond & Share Company. Into the latter system have been brought certain Insull properties since the collapse of the Insull empire. In 1929 and 1930, twenty large holding company systems controlled 98.5 per cent of the transmission of electric energy across state lines.

The rise to power of the large holding company in the gas utility industry has been no less startling than in the field of electricity. In 1932, eleven holding company systems controlled 80.29 per cent of the total mileage of natural gas trunk pipe lines, upon which the gas fields are almost completely dependent for the marketing of their product.

By the pyramiding of holdings through numerous intermediate holding companies and by the issue, at each level of the structure, of different classes of stock with unequal voting rights, it has frequently been possible for relatively small but powerful groups with a disproportionately small investment of their own to control and to manage solely in their own interest tremendous capital investments of other people's money. And the ownership of the stock of operating companies is but one of many devices by which a few clever men have woven the amazing network of control and influence with which they have enveloped and entangled large sectors of the gas and electric utility industry. Voting trusts, interlocking directors and officers, management contracts, the control of proxies, and other means, all have been facilely used to bring about a concentration of control in fewer and fewer hands.

The growth of the holding company systems has frequently been primarily dictated by promoters' dreams of far-flung power and bankers' schemes for security profits, and has often been attained with the great waste and disregard of public benefit which might be expected from such motives. Whole strings of companies with no particular relation to, and often essentially unconnected with, units in an existing system have been absorbed from time to time. The prices paid for additional units not only have been based upon inflated values but frequently have been run up out of reason by the rivalry of contending systems. Because this growth has been actuated primarily by a desire for size and the power inherent in size, the controlling groups have in many instances done no more than pay lip-service to the principle of building up a system as an integrated and economic whole, which might bring actual benefits to its component parts from related operations and unified management. Instead, they have too frequently given us massive, over-capitalized organizations of ever increasing complexity and steadily diminishing coordination and efficiency.

For all this concentration so dangerous to his democracy, the American consumer pays the bill. With a large and often unsound capitalization to support, many holding companies have not been able to be satisfied with reasonable dividends on the securities of their operating companies. They have compelled the consumer to bear the burden of various fees, commissions and other charges which they levy against their subsidiaries. They take fees, usually a percentage of the gross revenues of the subsidiary, under contracts for the performance of management, engineering, accounting, publicity, legal, tax and other general and special services. They make profits on the sale of materials to their subsidiaries. They make profits from construction contracts which they negotiate and perform for their subsidiaries; they often control one or more construction companies to which is awarded most of the building work for the entire system. They take fees for handling the issue, sale and exchange of securities for their subsidiaries.

These profits and fees, when dictated by the holding company sitting on both sides of the transaction, in no wise represent bargains freely and openly arrived at by subsidiary companies on the basis of the lowest cost in a competitive market. There is no semblance of arm's-length bargaining. Competition for construction and other work of public utility companies in many instances has been substantially eliminated. Independent private enterprise has been crowded out in favor of a none too benevolent private paternalism.

The promoters of the holding company patchwork have too frequently burdened the operating industry with security charges far beyond the value of the holding company to the industry. Many holding company securities were issued to acquire new properties, frequently from corporate insiders, at prices often far in excess of any reasonable estimate of the value of those properties and seemingly without heed of the fact that utility properties are required to serve the public under a limitation, in theory at least, of a reasonable return on "value".

The investigation of the Federal Trade Commission shows, for instance, that in 1929, Associated Gas & Electric Company acquired 94,005 shares of Barstow Securities Corporation, a utility holding company which controlled General Gas & Electric Corporation which controlled a chain of operating companies. The price paid was $531.04 a share. According to the accountants of the Federal Trade Commission, the stock had a book value of $2.97 per share and had earned $4.16 per share in the preceding year. The acquisition was a victory for Associated Gas over The United Gas Improvement Co. (a member of United Corporation Group), which had bid against Associated Gas for the property. To finance its purchase of these Barstow securities, with annual earnings of about $391,000, Associated Gas incurred obligations whose annual interest charges were $2,800,000. The example is an extreme one, but acquisitions of properties were common at two, three or more times their book value, an entry not likely to be understated in an industry where returns are regulated in relation to property value.

Continued on page 148

Liberty League, *Cont'd*

The abolition of holding companies would increase financing difficulties. A small operating company would have much greater trouble in finding a market for securities than under present conditions where the capital is obtained through a holding company with direct access to the financial markets. If the government were to reduce rates and enforce many regulations tending to deprive the management of the right of individual initiative and independence, it is obvious that private capital would not be available. The operating companies would be forced to curtail expenditures for improved facilities. There would be increasing complaints from consumers. Loss of revenue by reason of lower rates would contribute to the financial distress of the companies. The curtailed activities would add to unemployment. All of this would mean a deepening of the depression.

In the face of such a situation the government might be forced to take over the utilities to prevent wholesale bankruptcies. Nationalization of industry in such circumstances would mean a widespread destruction of property values.

Is the United States ready to embark upon a program of government ownership of utilities? The problem should be faced frankly, with full realization of all the factors involved. Government operation means inefficiency. It means waste. It means political management. It means the socialization of one of our largest industries.

The present administration has no authority in its party platform for the attempted abolition of holding companies. That platform declared for their regulation, not their destruction.

It is not here contended that grave abuses have not characterized some public utility holding companies both as to organization and management. On the other hand, they have certain definite and useful functions just as do holding companies in many other lines of industry. The holding companies make available to operating companies technical skill superior to that which they could otherwise command. They are able to purchase equipment at lower cost. They aid in financing, either through loans or the marketing of securities. Investments in holding companies have the advantage of a diversity of risk. Without them and their organized coordination and direction of scattered operating units there could have been no such development in the utility field as has taken place in comparatively recent years.

Holding companies of various kinds have been known in the United States for many years. One of the leading railroad holding companies dates back more than a century. Three of the existing gas and electric holding companies were in operation prior to 1900 as were a large number of holding companies in other lines of industry. The chief development of holding companies in the utility field came after 1910.

While the agitation responsible for the pending legislation has centered on public utility holding companies, their structure and functions are not essentially different from those in other industries. Hence, if the Congress decrees the abolition of public utility holding companies, the inference is natural that the ban will be extended ultimately to all holding companies. Whether there is such an immediate intention is immaterial. Anticipation of action of this character would affect adversely market values of all holding company securities. With a graphic demonstration before them of the disregard of the Congress for the rights of holders of securities of public utility holding companies, investors would be reluctant to place their money in holding companies of any kind.

The deflationary effects might be very great on a vast and varied assortment of industries, involving investments of many billions of dollars. This would seriously retard recovery and have the effect of keeping the country in its present depressed state.—*Extracts, see 5, p. 160.*

▼

by Bernard F. Weadock

Managing Director, Edison Electric Institute

★ *Mr. Weadock takes the position that the abolition of holding companies would force many small utility companies out of business because the small companies could not sell their securities.*

When we look at a map of the high tension lines of the United States we get the picture of a continuous network reaching from the Atlantic to the Pacific and from Canada to Mexico, covering the entire country excepting a narrow strip along the Rocky Mountains. It looks like a map of the railroads, and gives the same impression of extent, continuity and disregard for state boundaries. There has grown up a belief that there is an analogy between the interstate railroads and the lines transmitting power, which is exemplified in the question, frequently used as a form of argument, "since the Federal government regulates interstate railroads why should it not also regulate interstate power transmission?"

Perhaps the first step in considering the legal questions and public policy arising from possible Federal regulation of interstate commerce in electricity, is to disabuse our minds of the thought that similarity exists between the railroads and the electric utilities in their interstate aspects. The likeness shown on the map is one of appearance only. The Federal government, under the Transportation Act of 1930 does not regulate *all* railroads. It takes jurisdiction *only over common carriers* and regulates them as such. This term covers practically all railroads, but none of the electric trasnmission lines are common carriers. The railroads sell transportation. They carry from place to place goods belonging to others. The utilities are manufacturers creating a product, (considering electricity as a commodity) carrying their goods to market themselves, and there are merchants selling it. *They do not carry for others.* A railroad car may be moved from New York to San Francisco crossing a dozen state lines in its progress. Electric current is rarely trans-

Continued on page 149

Policy Committee, *Cont'd*

Such transactions obviously have no place in a sound economy. They do not serve orderly investment of the nation's capital in the utility industry. Instead they inject a temporary and unhealthy stimulation into the securities markets which discourages intelligent permanent investors. Real development springs from stable and predicable markets. But stability in the investment market does not very often make a $2.97 stock worth $531.04, nor does it bring old era profits to investment bankers and brokers. Fundamentally the holding company problem always has been, and still is, as much a problem of regulating investment bankers as a problem of regulating the power industry. As the Federal Trade Commission states in its report: "Professional managements apparently often give greater attention to the counsel of bankers than to the interest of widely scattered security holders who are the equitable owners of the company so managed . . . . In the heyday of holding-company exploitation just prior to the depression, investment bankers not only furnished financial aid when requested by holding companies, but solicited it and came to depend upon holding companies for business".

It is little wonder that these financial holding company securities have so frequently turned out to be poor investments, for which many investors were induced to exchange their relatively well-secured obligations and stocks of operating utility companies. Too late the investor discovered the difference between the regulated operating companies and unregulated holding companies, and learned how much of his money had been wasted in feeding the hopes and greed out of which vast utility empires were conjured, and how little used to build up the utility enterprise.

Determination of the actual investment in utility properties is the very foundation of any intelligent public regulation of the rates of privately-owned and operated utilities. No realistic determination of that kind can be made while holding companies may acquire properties and securities, and engineer their transfer through many corporate conduits, at fictitious prices. While Federal legislation does not try to regulate intrastate consumers' rates, it can help create conditions under which state legislation can establish rate structures based upon an objective and administratively workable standard of the "prudent investment" in the properties rather than upon the grossly unfair and unreliable variables of "fair value" and "reproduction cost".

We accept the view expressed in the minority report of the New York Commission on Revision of the Public Service Commissions Law that the decisions of the Supreme Court do not preclude state legislature from working out a rate policy for the future, which, as to new properties and additions, will be based on the prudent investment in the properties. That has been the accepted policy in Massachusetts and California and was the policy adopted by Congress in The Federal Water Power Act. In the case of properties already dedicated to the utility industry at the time of the adoption of such a policy, the investor and consumer may have to accept "fair value," which, realistically, is nothing more than negotiated or arbitrated value. But in our judgment, Congress and the states, within their respective jurisdictions, are free to determine once and for all the "fair value" of existing properties at a particular time and protect both the investor and consumer by providing a definite and predicable rate base for the future.

Substantial strides in this direction can be made now by Federal legislation which will control the accounts, security transactions and investments of holding companies in relation to the actual prudent investment in the underlying utility properties. The ultimate effect of such legislation should be to encourage holding companies thus freed from excessive capital burdens to adopt a low rate policy for their operating companies in their own interest. Lower rates and the greater and more economic use of gas and electricity by agricultural, domestic and industrial consumers implied by lower rates are a necessity for the continued growth of a great industry for the realization of its full possibilities.

Attempts by state commissions to protect the consumer from the burdens which holding company practices have imposed upon him have been, and practically always must be, largely unsuccessful. The public utility holding companies have become nation-wide institutions. Their subsidiary operating companies are located in every state. Electric Bond & Share Co. has operating companies in thirty-six states, and eight other systems have units in eleven to twenty-nine states. Many holding companies have affiliations, sometimes amounting to control, with banking interest, construction companies, coal mines, newspapers and other interests. Their securities are widely marketed by use of the mails and the instrumentalities of interstate commerce to investors throughout the country. Holding company operations are too extensive, state commission's powers and funds too limited, to make thorough and effective state action possible. And usually the holding companies have purposely arranged their organization and operations to keep out of reach of state regulation; their lawyers have challenged the jurisdiction of such regulation. Generally a holding company itself is incorporated outside the states in which its operating companies are located and carefully does not do business within those states in a manner which will give state commissions technical power to reach the books and records of the holding company. Even if obtainable, however, such books and records will be comparatively unintelligible and even misleading until uniform accounting methods are made compulsory. There is the further difficulty of allocating the appropriate proportion of the cost of holding company activities to its subsidiaries in a particular state, coupled with needless waste in having the process duplicated in state after state. These difficulties of state agencies are so fundamental that not even interstate compacts—assuming they could be evolved—can make state regulation practically effective without supplemental help from a Federal law.

The only practical control over public utility holding companies will be one which can directly reach the holding company itself and supervise its security structure and its use of capital and make possible over a period of time the elimination of the holding company where it serves no demonstrably useful and necessary purpose. Only in that way can Government protect the investors who supply that capital and the consumers who must bear its cost. The need of Federal control is no less imperative because all holding companies have not been guilty of all the abuses that have been indulged in under the hold-

Continued on page 150

Weadock, *Cont'd*

mitted further than from one state to its next neighbor, crossing but a single state boundary. About eighty-five per cent of railroad transportation is interstate and, therefore, under Federal jurisdiction. Almost the exact reverse is true of the utilities, about 83 per cent of all electricity generated is sold and consumed in the state of its origin. The Federal government through the Interstate Commerce Commission, has had little difficulty in absorbing control of the 15 per cent of intra-state railroad business, on the principle that the tail should go with the hide, but to accomplish the same result as to the electric utilities the tail would have to wiggle the dog.

It is freely admitted that sales and purchases across state lines between two separate utility companies constitute interstate commerce. Only a part of this transfer of electricity and a relatively small fraction of the total electric production of the United States is at present in this category and outside of the jurisdiction by the various state regulatory commissions.

In 1934, out of a total of 85 billion kilowatt hours of electricity available for distribution by the electric light and power enterprises of this country, only 17½ per cent, or 15 billion kilowatt hours crossed a state line.

Of this amount, 14 billion kilowatt hours or 16.5 per cent of the total generation of the country represented power produced *in one state and distributed to customers in another by the same company*, no separate company intervening or by affiliated companies between the generation in one state and the distribution to customers in another. The rates at which this direct distribution is sold to consumers are at present wholly within the jurisdiction of the state or a subdivision thereof in which the sale is made.

The total amount of electricity generated in one state and sold to another company for distribution to customers in another state and so exclusively within Federal jurisdiction in so far as concerns the direct regulation of the wholesale rate was less than 1 billion kilowatt hours in 1934 and represented *only one per cent* of the power production of the United States.

Even in regard to this power it may be said that the rates which may be charged the ultimate consumer are subject to control by either state or local authorities. I may further emphasize the fact that in spite of these interstate power transactions over what is now a long period of years, not a single case of abuse has yet been cited.

The language of the proposed Act would extend the jurisdiction of the Federal Power Commission over every private power plant and transmission line in the United States except those serving isolated places and a few others with self-contained transmission systems, no part of which might, in the opinion of the Commission be in any way connected with any other line crossing a state boundary. These comprise less than 10% of the total business.

The Act would thus embrace, under its category of facilities engaged in or connected with interstate commerce, 90 per cent of all power plants and lines of the United States. I submit that the mere solicitude as to what might possibly happen to one per cent of the business does not constitute a sufficient reason to take away from the present regulatory authorities nine-tenths of the operations now under their jurisdiction.

The net effect of imposing an additional burden of regulation on the operating companies would undoubtedly be to deprive many localities in the United States of the advantages of interconnection because most such interconnections are not of sufficient importance to induce companies to maintain interstate connections if to do so will mean the expense and difficulties of duplicate regulation.

It is unquestionably in the mind of the public that the supply of great quantities of electricity to all points of the United States is already, or shortly will be, the established practice and that this great quantity of power goes without regulation of any of the state or local public service commissions. The picturesque and dramatic aspects of the transmission of electricity have been so publicized that the public has come to conclude that there is no limit short of the continental confines of the United States to the transfer of energy.

Nothing could be further from the truth.

While there are many operating advantages in tying together a lot of power plants into one system and in supplying intervening communities from the "high lines" which constitute these ties, the principal function of transmission lines is to connect neighboring and adjacent sources of power. If we must stick to the comparison with the railroads, these transmission lines are largely comparable to railroad sidings, not long distance trunk lines.

Far from moving over great distances, most of the electricity now used in the United States never gets more than 20 miles away from the power house where it was made. Notwithstanding the existence of thousands of miles of transmission lines and the occasional transfer of power over quite a distance during an emergency, *the travel of the average kilowatt hour produced in the United States from its point of production to its point of consumption last year was only about 22 miles.* [illegible]e take out the power supply of California, with its hydro-plants up in the mountains and its customers in the Central Valleys and along the Coast, the average for the rest of the United States would have been only 18 miles.

To a large extent this is the result of economic factors which have dictated the location of steam plants in the near neighborhood of the large markets for their power in our seaboard cities and the great industrial regions of the country. It is also the result of the increasing economies being effected in the generation of electricity by steam near the centers of use as compared with the cost of making water power developments at a distance and of bringing this power to market over long transmission lines.

Electricity for public use is produced by other enterprises besides public utility companies. Many large industrial plants are interconnected with the transmission systems of the electric light and power companies. They interchange power to the mutual advantage of each. Sometimes they supply electricity to the company sys-

Continued on page 151

Policy Committee, *Cont'd*

ing form. The abuses have not been spasmodic only, but sufficiently widespread to necessitate legislation to protect the public against an inherently dangerous corporate device, which, unregulated, reflects unjustly on guilty and innocent alike.—*Extracts, see* 4, *p.* 160.

by Professor Raymond Moley

Editor of "Today"

★ *Professor Moley says that any losses that might occur under the Wheeler-Rayburn bill would be paper losses and not real losses.*

THE romance of railroad pioneering has often been written; but no one has yet told the story of the amazing linking of electricity generating stations and substations which, since the war, has covered the United States with a network of power lines.

The physical weaving of this network of copper and steel has been accompanied by the development of financial systems no less far-flung and intricate. Holding companies were created in the pioneering days of the utility business to connect operating companies physically and financially. Later, these original holding companies were tied together by other holding companies, layer upon layer, until, in one outstanding case, as many as six financial structures were built above a bottom stratum of operation.

It is this network of control that Title I of the Wheeler-Rayburn bill proposes to simplify. The bill, like Gaul, is divided into three parts. Title I applies to holding companies. Title II proposes Federal regulation of all interstate producers and distributors of electrical power. Title III applies to gas companies. A fair appraisal of the legislative situation suggests that when Title I has received the extensive consideration by Congress that seems to be necessary, there will scarcely be time, in this session, for the consideration and passage of Title II. Moreover, in view of the vast changes in corporate structure that will be made necessary by Title I, Congress is likely to find it advisable to wait and see what emerges from these reorganizations before it undertakes to regulate the new power system. While it may be possible to pass Title III in this session, most legislative observers are inclined to believe that its chance of passage is not particularly favorable. For our discussion, therefore, it will be well to consider only Title I.

Friends of the holding company say that it helped to satisfy the enormous demand of operating companies for money for expansion. Operating companies, as one leader in the utility fields puts it, were "hogs" for money. Holding companies found it for them. Raising money through holding companies extended the marginal control of private groups over widely scattered and diversified properties, thereby offering to investors an assurance of steadier earnings than a single, simple company could offer.

A second important service of the holding company, its friends point out, has been its ability to provide technical services of various sorts for operating companies. The earlier, simple operating companies depended upon large numbers of independent engineers. But as the companies integrated and coagulated, engineers were rapidly gathered into great technical departments. To a large extent, electrical engineers ceased to be independent practitioners and came to be employes of huge holding companies. There are differences of opinion as to whether the engineers' profession has benefited from this change. Certainly there were many factors in the old-time situation which lent more distinction to it and gave more freedom for individual initiative to engineers. But it may be doubted whether the persons composing the engineering profession, on the average, were more secure in their livelihood and more prosperous than under the new dispensation.

The argument for holding companies, therefore, comes down to two points: They provided centralized means of pouring capital into needy operating companies; they offered centralized sources of technical services, with more resources than any one company could afford to maintain. The validity of these claims is not denied.

It is unnecessary to recount how, despite these undoubted benefits, the holding company became the parent of glaring evils. In brief, they were of two kinds, closely paralleling the two advantages that I have described above. On the financial side, the holding company often issued senior securities of its own on the basis of assets consisting of nothing more substantial than the common stocks of its operating subsidiaries. This meant nothing more than the selling of third, fourth, or even fifth mortgages on the assets of operating companies. Some holding companies issued stock without voting rights, while reserving small issues with voting control for insiders. Some companies permitted "up-stream" loans, or loans from sound operating companies to less secure holding companies. Assets sometimes were written up arbitrarily as a basis for the issuance of securities at inflated values, not for the profit of the utility enterprise, but for the profit of corporate insiders. Some of these practices were merely schemes to achieve control of vast properties for men who had slight financial interest or responsibility in the affairs of these companies.

In providing services for operating companies, there were equally unsound practices. Management, service and construction companies were rigged up merely for the purpose of monopolizing the business of serving subsidiary operating companies. To a great degree, the utility construction field came to be largely closed to independent engineering and construction companies. Standards of competitive costs often ceased to exist.

Continued on page 152

Weadock, *Cont'd*

tems, at others they draw electricity out of them. Their power plants are as much facilities affecting interstate commerce as are the generating stations of the companies themselves.

A strict interpretation of this bill would include the power plants and through them, the operating and accounting and financial methods of these corporations, and Title I would provide for their dissolution.

In 1933 there were *1,681 operating companies* of record in the electric light and power business.

Of these 1,601, or 97½ per cent of the total, had a net income, after interest and other charges, of less than one million dollars and the average net income of this group was less than $60,000 in 1933.

The average for all the 1,681 companies engaged in the business was only $265,000. Last year's figures are not yet available but they will be materially smaller than even this $265,000.

Judged from the standpoint either of gross revenues or net income, public utility companies are small when compared with other great industries in this country.

Only two utility companies had *gross revenues* in 1933 which were as great as the $83,214,000 *net income* of a large motor car manufacturer. The total revenues of the ten largest utility companies in 1933 were less than that of a single steel corporation alone and, if 1929 were taken as an example, the revenues of such steel companies would have exceeded in size that of *all* of the electric subsidiaries of *all* of the public utility holding companies at that time.

There are about *1,300 electric operating companies which are little enterprises confined entirely to small restricted localities.* Almost all of these companies are locally owned and locally operated by organizations which average only 20 people. In many of them the president is usually also the manager, meter reader, bookkeeper and general man-of-all-work.

There are 62 large companies which serve only one city and its immediate suburbs. They serve 70 per cent of the entire population of all places of 50,000 people or more. The conduct of all this business is entirely under the control of state or local regulatory authorities.

The Act, under Sec. 203(b) authorizes the Federal Power Commission to direct any utility company within the scope of the Act to add to, repair, improve or change facilities according to any scheme that the Commission may have in mind.

This gives the Commission powers never even contemplated by any regulatory body. The State Commissions have steadily maintained and the courts have upheld the sound American principle that regulation cannot take the place of management and that the details of the conduct of business were the responsibility and duty of the people that operated it.

The Act reduces company management to a position of complete subservience and virtually authorizes the confiscation of the property and, since its findings of fact are conclusive, there *can be no review* of the exercise of this authority by the Power Commission. Congressional Acts are subject to review, why not acts of its agencies?

Unless we believe that we have seen the peak of America's industrial expansion and the future years will only show a gradually stagnating country and a lower standard of living, we must look forward to the continued increase in the use of electricity. Local communities will grow as new factories are established and additional goods are produced by those now operating. Great as it already is, the expansion and diffusion of electric service has still large areas yet to be supplied. The use of electricity by the individual consumer has not yet stopped growing.

All this means the eventual construction of more power plants and the extension of lines. Under this Act, however, none of this can be undertaken unless a certificate of convenience and necessity has first been obtained from the Federal Power Commission and then under such terms and conditions as it may prescribe.

All of it means the raising of new capital at a time when the investing public has become thoroughly alarmed at the practical results of this Act, which makes the Commission the *actual manager* of the property while at the same time, the officers and employees remain responsible to the investors and customers of the Company.

Further than this, the Act authorizes the Federal Power Commission to undertake the forced coordination in regional groups of privately owned facilities under the direction of the Commission. These regional groups may be composed of such units as the Commission may see fit. Wherever the Commission finds it necessary or desirable it may direct a public utility to make additions, extensions, improvements or changes in its facilities.

The situation might easily arise where an operating utility company would be forced to undertake a large uneconomic construction program. It would be confronted by the necessity of raising money at a time when investors have been so alarmed at the loss by the utility of control over its own property and investment that financing by operating companies was rendered virtually impossible. Not only would the credit of the company be greatly depreciated but the standing of the underlying bonds would be so deteriorated that they would no longer conform to the stands required for the investment in them by savings banks, institutions and trust funds.

The operating utilities of this country have outstanding more than 6 billion dollars in bonds. Many of these represent actual mortgages on particular pieces of property whose future earning power this Act hands over to the discretion of the Federal Power Commission. They represent actual bona fide physical property and are widely held, not only by individual investors, but by fiduciaries of all kinds all over the United States.

It has repeatedly been stated by the advocates of this legislation that these bondholders have little to fear from this Act.

I only wish that this were so.

Restrictions covering the legality of investment by savings banks and certain trust funds are very particular as to the earnings of the company that issues such bonds. A certain amount of junior securities must be outstanding. The net income of the company must have exceeded twice the interest requirements on the bonds over a period

Continued on page 153

Moley, *Cont'd*

The Wheeler-Rayburn bill does not propose to abolish all holding companies. The President in his message of March 12 made that perfectly clear. It attempts to retain the advantages of the holding company device while eliminating its abuses. Its intention is to simplify the structure and operation of holding companies in order to provide sound, economic management and operation of companies linked together in groups based upon regional interests and circumstances.

This is a delicate operation. The whole question, therefore, resolves itself to the effectiveness of the Wheeler-Rayburn bill as an instrument for this major operation.

It would retain only such holding companies as qualify on the ground that they provide a sound financial structure within an area regionally suited to unified control. Now it does not seem to me there can be any great quarrel with this regional principle, from the public point of view. The investor in holding companies has been taught that national chains were immune to local attack and secure against regional depressions, and to the extent that companies were correct in that view, the policy has been unsound from the long-run social view. If business and investors are not to be responsible for the interests of individual communities, then who is?

Second, the bill would retain only those service, management and construction companies whose sole purpose is to provide service to operating companies at a legitimate cost determined under sound competitive conditions.

The bill names as the judges of what is sound and proper under these two conditions the Securities and Exchange Commission and the Federal Power Commission. On all matters of financial structure and financial management the SEC has wide discretionary power. The determination of what is a geographically sound grouping of companies is in the hands of the Federal Power Commission.

I, personally, do not like this division of responsibility. It seems to me that it would be better to give one agency, the SEC, entire responsibility under the Act and to permit the FPC to serve in an advisory capacity to the SEC. It is a sounder governmental principle to vest authority for responsibility in one place and to avoid the dangers of conflicting policies as between two governmental commissions.

There are also, in my judgment, minor defects in the bill, many of which probably will be corrected in the course of its careful consideration by the committees in the House and Senate. In many definitions in Section 2, more precise language might be used. I can see no objection to including government-owned power agencies under the terms of the bill in order that, in any competitive process, governmental agencies such as the TVA will be subject to the same regulative authority as private companies which must compete with it.

The necessity for the passage of the bill at this session is obvious. The utility industry must be made a sound economic structure. It provides the very life-blood of our civilization. It has amply shown that it is incapable of regulating itself, just as, a year ago, the stock exchange could not itself eliminate its defects.

The argument that the bill will prevent companies from raising the money needed for extensions, because it would destroy the one source of funds on demand, the holding company, ignores the fact that the bill would leave functioning at least one holding company for each group of stations. With the shortage of places for investment of insurance and other funds, it is hard to imagine that these companies could not raise money quickly on the enhanced values they could offer in a simplified structure. The utilities will need money, and I believe they can get it from the same sources and in the same manner the simpler corporations could get it today, if they wanted it, from corporate savers like insurance companies, corporate investors like investment companies, and private investors.

The argument that the bill will destroy billions of dollars of value confuses paper values with true values. There can be no destruction of physical plant unless maintenance is deferred. Rate structures are supposed to provide against that. There can be a disclosure of loss through improper financial architecture, reared in the hope of obtaining profits from leverage. Yet I believe the cheapness of money is going to make good eventually a surprising amount of even the more extravagant capitalization of some of these holding companies, if we have a strong recovery within the five-year period provided in the bill. The bill does not require the dumping or forced liquidation of assets. Most dispositions made necessary by the bill can be effected by redistribution of securities among existing security holders, and not by outright sales on the market. It would, of course, be possible for the SEC to push reorganizations so rapidly as to create something of a panic on the part of owners of securities in the holding companies. And it is here that the Administration will have to accept the responsibility of conserving all of the legitimate value that reposes in the holding company securities. I believe it can be trusted to meet that responsibility.

I have repeatedly said that the opponents of the bill have every right to make their opposition known. But for the sake of their own interests and the interests of investors who have entrusted their savings to them, the officials of holding companies ought to exercise more discretion in the character of their arguments. The effect of some of their outcries has been to frighten small investors into dumping their securities in a weak market, and there is every evidence that wise investors are picking up these bargains. It will be something close to tragedy if, as a result, small and timid holders should sacrifice their holdings while those who have the capital to seize upon vest amounts of sound and under-priced stock should be enriched.

What is needed is a sane effort, on the part of all concerned, to limit the argument on this important measure to realistic considerations of exactly what it proposes to do and how it proposes to accomplish this end. Arguments that are intended to frighten people are decidedly not in order, particularly at a moment when business is ready to move into a period of sound and steady improvement.—*Extracts, see 6, p. 160.*

Weadock, *Cont'd*

of years. There are other requirements, all designed to protect the bondholder by providing a margin against adverse conditions. When these requirements are no longer met, the bonds cease to be legal investments. It is not difficult to foresee situations where the earnings of companies will be greatly reduced by the use of a rate base founded on "prudent investment," where operating expenses will be greatly enlarged by the shackling of management and where the additional financing can be undertaken only at usurious rates of interest. Under these circumstances the margin of protection on these bonds will be reduced to a point below the legal limits.

I say in all sincerity that the bondholders in the operating companies if made subject to this Act may well be uneasy over the integrity of their investments.—*Extracts, see 8, p. 160.*

▼

by Luther R. Nash

Vice President,
Stone & Webster Engineering Corp.

★ *Mr. Nash predicts that the dissolution of the executive and engineering staffs maintained by holding companies would result in higher electric power rates.*

HOLDING companies through intentional wide separation of their utility units are able to diversify their operations and minimize the effect of business fluctuations. A drought may affect an entire state or regional district, but other units of a present holding company system may be enjoying industrial prosperity. Such increased stability, while primarily to the advantage of investors in holding company securities, adds also to the credit of the operating company with resultant lower cost of money and lower rates for service to its customers. The ability to balance the profits of industry in one locality against the losses in another has been characterized by the Federal Trade Commission as a "very important advantage."

Public utilities now have to a large and increasing extent through affiliated companies the benefit, at cost, of trained executive and engineering supervision and, in some cases, skilled construction forces all continuously acquainted with their particular needs and problems. Such continuous and intimate contact with utility requirements rather than intermittent or piecemeal contacts makes possible a program of long-range planning and a degree of efficiency in operation and economy in capital expenditures not otherwise obtainable. The cost of a similarly competent organization for individual utilities would be prohibitively large.

It appears to be the intent of the Act to encourage mutual service companies, but its ultimate effect may be to destroy those now existing, and remove any incentive to the organization of others. This will come about because, when holding companies are abolished, their service affiliates, lacking direct supervision, encouragement, and incentive, will tend to disappear. Independent management, engineering, or other similarly operated service organizations would not take their place because such organizations, like other businesses, are undertaken and operated for a profit and not at cost. The charges of such independent organizations would be higher than those now prevailing in many of the large holding company organizations. This would mean higher fixed capital charges or increased operating expenses or both and consequently higher rates.

An independent, interstate utility would probably be required, under the Act, to submit all such service requirements to competitive bidding, and would receive from the successful lowest bidder less satisfactory and dependable service than from a regularly employed agency having knowledge of its property and operating requirements. Experience has shown that competitive bidding for recurring services is expensive in the long run.

While these intrastate utilities would not be restricted as to officers and directors their field of choice would naturally be far more limited than under the present holding company conditions.

Apparently even independent intrastate utilities are not free from certain other blanket provisions of the Act. Section 12(d) provides that no construction contract may be made by any contractor doing interstate business with "*any* public utility company" without subjecting himself to rules or regulations which provide for reports, cost accounting, disclosure of interest, and other burdensome and exacting requirements. No builder or manufacturer who supplies complicated power facilities could conform to such requirements without material increase in his prices which would ultimately be reflected in utility fixed capital and rates.

Section 215 is even broader in its scope, as the following quotation shows:

It shall be unlawful for *any person* to make use of the mails or any means or instrumentality of interstate commerce to perform *any service* or negotiate, enter into, or take *any steps* in the performance of *any contract* with a corporation engaged in the business of selling or distributing electric energy in the public service in contravention of such rules or regulations or orders regarding reports, accounts, competitive bidding, disclosures of profits, duration of contracts, and similar matters as the commission may prescribe . . .

Apparently no independent attorney, accountant, engineer, or any other individual, bank, or other organization could undertake work for a utility in another state without endless formalities, reports, etc., all of which become public records. The obvious result is less reliable and efficient performance of service and other contracts, and higher costs. All such factors will, to say the least, tend to stop that downward trend of rates which customers have continuously (with minor exceptions) enjoyed throughout the period of holding company activity.

The customer finds in Section 1 of the Act a clearly stated intention "to provide at the end of the five years

Continued on page 156

PRO

by Dr. Walter M. W. Splawn

General Counsel, House Committee on Interstate and Foreign Commerce

★ *Dr. Splawn, who is a member of the Interstate Commerce Commission, gives the history of utility holding companies and his opinion as to why they should be eliminated.*

THE power industry, in which the holding companies dealt with in Wheeler-Rayburn bill are active, as we know, it is a very young industry. Some of us in person, others of us by radio hook-ups, attended a celebration of the discovery of the incandescent light and possibilities of that light by Thomas A. Edison. We were thrilled to hear over the radio the voice of that aged inventor. Within his life this industry grew from a conception in his mind to a public necessity and convenience universally employed.

During the early years there was, of course, experimentation and hesitation; but after Edison, Steinmetz, and others had perfected the instrumentalities used in the industry, people very joyfully began to substitute electric energy for the old tallow candle, kerosene lamp, and gas.

Then there came a period of very rapid growth—development of local companies all over the country. These local companies were financed locally, mind you. They did not have any big holding companies to finance them in those days. It was the most speculative period of the industry, the time of the greatest risk. These companies grew up as local and independent units, and the great men in the industry in those early days were those inventors, engineers, and operating managers. Certain supply houses began to maintain laboratories and gathered in and encouraged inventions and improvements in the arts and extended certain lines of credit to local companies, and out of those activities there came the forerunners of the modern holding companies.

During the period of about a quarter of a century this industry was characterized by rapid improvements in the arts, greatly reducing expenses of generating and distributing electric energy so that those in charge of the companies were able to give the people for nearly a generation constantly improving services at reduced rates. That is, the rates were falling from time to time and at the same time they were able to earn considerable profits.

Then there came a time, as there does in the development of any industry, when these inventions ceased to be so revolutionary as savers of operating expenses. Ten or fifteen years ago it appeared that the industry was becoming rather stabilized and improvement continued on inventions particularly of appliances to use electricity, such as electric refrigerators. Then there came a situation in which the financiers for the first time eclipsed the inventors, the engineers, and those who had devloped the industry, and the holding companies were developed.

These great holding-company systems operate now in competition with one another; competition to get properties; competition to develop spheres of influence. The people within these systems cannot do very much about the situation that has developed. That is, they are, I think, powerless of themselves to change the system. The system itself as it exists, unregulated, holds out tempetations which in some instances have proven to be so great as to ruin the men and the individuals involved.

Now, in that connection, I may call attention to the Insull holding companies.

There are five companies: Commonwealth Edison, Peoples Gas Light & Coke Co., in Chicago, Public Service of Northern Illinois, operating in northern Illinois, and two great holding companies, the Middle West Utilities Co. and the Midland United Co.

They had been built under the leadership of and under study of Thomas A. Edison. This management gave the people improving service at decreasing costs and with good profits to the stockholders. Through a generation there was built up under that management a great urban power company, a great urban gas company, a great integrated local or regional company in northern Illinois, and, in the last years of the activity, an empire flung across the Middle West and the East.

The genius for organization and in directing operations had built these local enterprises before starting this empire; the management looked about and saw other managements building empires to rival the Middle West. They learned that there were certain financiers buying into the voting stock of the big urban companies in Chicago, and a sort of panic seems to have seized on the management. There were organized two holding companies. There was no regulatory body to say them nay. They did not have to go to any commission or any authority. They did not have to meet any tests of the public interest and there was no regulatory body to make any finding that what they were doing would meet the standards prescribed in the public interest. They organized two corporations and invited the public to do what? To furnish the money to enable this management to continue in power.

The public, for the reasons that I have indicated, had great confidence in this management and came forward with the funds, liberally bought the stock of these two new corporations to which the management had transferred the minority interests which they held in the existing companies and in the two big holding companies. That was at a time when stocks were high and when speculation was rife.

What happened when these two new corporations became active? The management, seized by a panic saw that others were buying voting stock of the operating companies and might threaten their tenure as officers. Of course, the stocks went up and up and up and people who owned the stocks of the local integrated companies thought they were getting rich. Some of them sold out and the people who bought the stocks later found out that they truly were lambs.

There was in the prospectus of these companies a statement that they would have about $30,000,000 of cash in addition to $50,000,000 assets besides, to start with; but

Continued on page 156

Nash, *Cont'd*

for the abolition of the public utility holding company." Qualifications appearing subsequently in the Act do not essentially modify this intention.

The charges contained in the preamble of Section 1 in support of this program, as far as they directly concern the customer, are:

1. That utility property values have been inflated;

2. That utilities have paid to their holding companies or affiliates excessive fees for management, engineering, construction, and other services;

3. That holding company subsidiaries are grouped without consideration of geographical coordination or maximum economy of operation; and

4. That control of holding companies is beyond the power of state regulatory commissions.

All these shortcomings are assumed to result in higher rates. There is no criticism of the scope and character of electric power service; in fact, it is well known that there has been an uninterrupted and pronounced improvement, particularly in the outlying sections where interconnections have brought regular 24-hour service instead of unreliable and inefficient night or evening service, or none at all.

Nor is it denied that during the holding company régime there has been a reduction of nearly 50 per cent in average rates, at least with respect to domestic service in which the public interest centers. The customer has experienced no other reductions approaching this amount in any other significant items in his family budget which, although including electric service, has as a whole increased within the same period more than 100 per cent and is still about one-third higher than in pre-holding company days. This does not support any general indictment of all holding companies.

Inflation of capital might have a tendency to increase rates, although regulatory processes do not recognize capital structures, but the customer understands that there are now not less than three agencies to prevent overcapitalization, the regulatory commissions in many of the states, state blue sky laws, and the Federal Securities and Exchange Commission. All these agencies, except the first, have supervision over holding company as well as utility security issues. It has, in fact, been contended that the last-named commission has been so strenuous in administering the law as unduly to restrict or prevent business expansion essential to recovery.

With respect to holding company fees, which may affect both fixed capital and operating expense, it appears that various state commissions, backed in many cases by amended regulatory laws, have refused to approve any such charges without clear proof that they were consistent with the cost of the service to the agency rendering it. This matter has been under regulatory consideration for not less than twenty years, and laws requiring proof of cost for more than ten years. In some instances it is required that only *reasonable* costs will be approved, any extravagance in expenditures coming out of the owners' pockets. Such procedure has been affirmed by the courts, including the United States Supreme Court. Recent amendments to state laws require the filing and approval of service contracts before they become effective, thereby definitely excluding excessive charges. It is the opinion of these commissions, according to published reports, that this procedure provides them with an adequate remedy, and that no Federal action relating thereto is needed or desired.

The customer is bewildered by the complexities and widespread activities of many holding companies, industrial as well as utility (there being a far greater number of the former than of the latter) but with a continuation of present steps toward simplification in the utility field, he is skeptical of any advantages resulting from governmental dismemberment and realignment in the hands of inexperienced theorists, or of any possible added economy of operation resulting therefrom. He would prefer to see an orderly simplification under the supervision of the Securities and Exchange Commission, and believes it should be undertaken expeditiously. The reports of the technical staff of the Federal Trade Commission have been highly commendatory of the engineering skill and sound economics embodied in the large holding company systems and their interconnections.

If the average electric customer were asked whether availability and reliability of service were more important to him than the price he pays for it he would, if he had given the matter thought (which relatively few customers have), readily admit or assert that his service was worth far more than its cost, and that any governmental activities which tended to curtail or impair present dependable service were of much more concern to him than some possible moderate reduction in its price. It is not clear to him why there should be a nation-wide agitation over this item, amounting to about one per cent of his family budget.

It may be true that the state commissions cannot directly control the affairs of holding companies unless they also carry on utility operations. They have, however, control over every important avenue of their contact with operating companies, including their fees and, to some extent at least, prices which regulated utilities pay to them or to affiliated companies for purchased power even when interstate transmission is involved. They can also control changes in ownership of regulated utilities and prices paid therefor.

As between the two fields of regulation, state and Federal, the customer will vote for the former if he understands all the complications and implications of the latter. He may visualize in the Act a purpose to establish a precedent for future control and realignment of *all* corporate activities, and this would affect him far more as a citizen than as a utility customer.

It does not appear that repeated claims, that "regulation has broken down" are supported by the record of repeated rate reductions and service improvements and extensions which have been brought about thereunder. Many of the past failures of regulation have been due to inadequate appropriations for which legislatures rather than commissions are responsible. If a very small proportion of the vast sums required to administer the program embodied in this Act was applied to increasing the personnel

Continued on page 157

the public apparently did not understand that the $30,000,000 was to be furnished by them.

When the stocks began to fall these companies began to borrow at the banks and put up the assets of these two new corporations, securities held by them as collateral, using the money, trying to peg the market. You know the rest of the story. One of the vice presidents of one of the banks in Chicago said to me that "the collapse of these companies has hurt our city more than did the great fire."

One day I stood and watched those holding securities and obligations of these companies coming in and filing them. They were just the average run of people—clerks, and schoolteachers, there in Chicago, small shopkeepers in Illinois, farmers from Wisconsin—and what they brought in, of course, was worth nothing. They had lost every penny.

When I went to see the distinguished jurist, in whose court receivership of these companies is, he expressed the hope, when he gave his cooperation, that Congress would be able to find a way to make it impossible for such a catastrophe ever again to occur.

It seems to me that the present holding company set-up in the power industry is illogical.

There are two reasons, I think for that. The first, from the point of view of the investors. These holding companies get the investors too far away from the properties. You take, for example, the United Gas Public Service Co. This is an operating company, operating pipe lines and distributing plants and products all of the way from the Gulf of Mexico on the Texas coast across Texas and Louisiana into Alabama. Now, there is superimposed on that operating company a pure holding company—the United Gas Corporation. This United Gas Corporation has 38,000 stockholders—individuals scattered throughout the country. They did not get the stocks as a result of a public offering. They owned stocks in these little companies. There were some 40 of them. They traded out for the stock of the holding corporation.

It seems to me that since they were close to the operations to begin with that they would have been in a better position if they now had stocks in the operating company which succeeded the operating companies that they were traded out of. For pure purposes of promotion and setting this thing up, the United Gas Corporation apparently served a very good purpose, but now it seems to me to be wholly obsolete and unnecessary and the people who owned the stock—these 38,000 holders—are not stockholders in the United Gas Public Service Co., the company that operates the properties, but they are stockholders in this paper company, which itself controls the operations or owns the majority of the stock. That is one answer.

The other reason, which I think is still more fundamental as to why the holding company set-up is illogical, is this: The power business is not like the telephone business or the railroad business, transcontinental or essentially an interstate proposition. Its operations are at the most regional. Many of the soundest operations are altogether intrastate and may be designated as local.

These operations, so far as management is concerned under the present state of the arts cannot be much more than regional, so far as a physical interconnection is concerned, and you can get now a large enough aggregation of properties or operations to realize the real benefits of large-scale operations without any interregional tie-ups through stock ownership.

These interregional holding companies have undertaken to tie a number of local or regional activities and operations into one top control. That is to say, this is an industry which is essentially local and which should be regulated, should be managed, locally, and therefore regulated locally. That is, by the municipalities and by the States.

This interregional interlocking of these local operations through a holding company centers the real management and control largely in one place; in New York City, for the most part. If that is done then it is inevitable that Congress will have to be regulating them because the people in these many States—the communities served by the companies will demand it.

If the interregional holding companies, mere paper companies, undertake to tie these managements together and run them from one city or two, or three cities, then the public will look to the Congress to regulate these holding companies.

In my judgment Congress cannot regulate them satisfactorily.

I have been very interested in following the abuses that have grown out of these interregional holding-company activities.

To try to reach all of those abuses, Congress will have about 32 different bills or different sorts of approach and the people will be asking Congress to go into the regulation of the abuses, whereas with local regulation of operations and the elimination of holding companies the abuses would disappear. I believe that the regulation of the rates and the issuance of securities and policing of the accounts and fixing of valuations of these properties should be by the States and by the municipalities, because their activities are local, and not by the Federal Government.

It seems to me that the interregional holding companies—these few companies—are seeking to make money out of the operating companies through the devices that have been recounted, and it is resulting in an illogical and radical nationalization of purely local activities and bringing to Congress problems with which it should never have to deal, and I say, for that reason, instead of regulating the holding companies it is better to eliminate them. It is better to put these activities right back into the regions and localities that they serve.—*Extracts, see 10, p. 160.*

Nash, *Cont'd*

and compensation of existing state agencies, the occasion for continued criticism of their accomplishments would largely disappear. Their knowledge of local conditions and needs and their ability to give them prompt and sympathetic attention is an asset which should be neither curtailed nor destroyed.

Our present system of state regulation of public utilities has developed during the past thirty years from an isolated experimental stage to a coordinated system covering nearly every state in the Union. Through a national organization and its standing committees, the members of the various commissions have exchanged experiences and adopted such uniformity in methods of procedure as regulatory laws permit and special local conditions make expedient. That these local conditions play an important part in the solution of regulatory problems in widely separated parts of the country is disclosed by a study of the important decisions of the commissions which, for the past twenty years, fill more than 100 standard legal volumes.

This Act would duplicate the work of these commissions, and deprive their 172 members of all but a negligible part of their present authority and duties, and their staffs of hundreds of employees, trained and skilled in their respective local duties, after becoming a helpless and useless burden, would duly disintegrate. It is inconceivable that a national bureaucracy could handle the many essentially local regulatory problems without endless confusion, bungling, arbitrariness, and intolerable delays, all of which would be reflected in the customers' service and rates.

With state regulatory authority already provided, and confirmed by unquestioned court decisions, over holding company charges and other utility relations, utility capitalization and security issues, changes in utility ownership, and other matters which constitute the major features of the Act, the apparent outstanding purpose of the Act is to override states' rights and destroy a system of regulation which has functioned with increasing effectiveness with the passing of the years. Those who are inclined to question this effectiveness, because of appeals to the courts and injunctions against commission orders, may well note that in most of these cases the courts have found overzealousness in the customers' interest rather than negligence.

It is noteworthy that none of the state or previous Federal regulatory laws have paralleled or even approached the provisions of the Act with respect to their usurping the powers and duties of management and their destruction of incentives for efficiency and progressiveness, all of which are of vital interest to customers.

Federal regulation of interstate power movements including a fixing of *wholesale* rates therefor may be needed to supplement the regulation which existing state agencies can effectively perform. The same results might, however, be accomplished by joint *responsible* boards made up of members of the state commissions concerned, with the Federal Power Commission or other Federal agencies as advisers or arbitrators. A procedure of this kind is under consideration by the Congress in connection with interstate highway transportation.

The customer is a taxpayer. He is paying for state regulation, either through regular channels or direct assessment of the utility serving him. He is not disturbed over this cost because of the results which have been accomplished. He is, however, appalled at the added burden which he and other taxpayers would shoulder to support a vast army of executives, economists, engineers, examiners, rate experts, accountants, inspectors, attorneys, clerks, and others necessary to carry on the stupendous program visualized in and authorized by the Act. As a customer he has observed a steadily growing tendency to place the burden of added governmental costs on the shoulders of public utilities which, with few exceptions, are authorized to include them, directly or indirectly, in their customers' bills. This may, perhaps, be accounted for in part by the fact that power company groups have been so well managed throughout the depression, and have not called upon the government for financial assistance, as have certain nationally regulated utilities and other industries.

A step-by-step analysis of the provisions of the Act discloses that the various features intended to protect the utility customer have already been provided for, wholly or in part, by existing state or Federal legislation, or can readily be provided for by simple supplements to the latter, and that further corrective details can be developed by reinforcement of state regulation at far less expense and much greater effectiveness than through Federal agencies.

A familiar proverb warns us not to put all our eggs in one basket. We now have regulatory baskets in practically all the states, some containing more than one regulatory agency. The Act proposes, in effect, that all the regulatory functions shall be concentrated in one basket located in Washington.

The state regulatory commissioners have made mistakes, like all other human beings. These mistakes are, however, limited in their effect to the restricted fields of the separate commissions. They do not all make the same mistakes, and they may not all make mistakes at the same time. If a single Federal agency had such comprehensive and unrestricted powers as are contemplated by this Act, the widespread effect of errors resulting from ignorance, poor judgment, bias or political pressure would be disruptive of an entire industry, one of the largest and most useful in the country.

In a very recent utility decision (January 7, 1935) the United States Supreme Court, speaking through Mr. Justice Cardozo, said: "When a business disintegrates, there is damage to the stockholders, but damage also to the customers in cost or quality of service."—*Extracts, see 7, p. 160.*

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THE STUDENT'S Q. and A. PAGE:—

***Editor's Note:** Because of the many requests received for information about "The Congressional Digest Plan for Teaching Political Science by the Conference Method," since its announcement, this page is devoted this month to a general description of the plan and how to fit it into the Curriculum.*

THE CONGRESSIONAL DIGEST Plan for Teaching Political Science by the Conference Method is a suggestion for classroom organization combining classes in public speaking, debate, and political science.

Details of the plan are fully set forth in an Instructor's Handbook. (See inside back cover, this issue.) The plan provides for the instructor to join the students in a bipartisan, legislative group, following the organization of a Congressional Committee, to examine, analyze, and solve the nation's problems *in the same manner* and *at the same time* the nation's own Congress is doing so.

The class is formed into a committee of Congress with majority and minority political representation. The members debate the question before them in actual legislative bill or resolution form, and finally vote on the pending bill. Each month the CONGRESSIONAL DIGEST supplies the class with a fresh topic, giving its history, status and pro and con discussion by leading authorities on the subject, together with a study outline.

In attempting a new approach to the study of government, the very system used by the nation's Congress in studying legislation was followed. Under normal conditions Congress is the main spring of the Federal Government and most of the work of Congress is done by the committees. Therefore, the committee system, with its political division, its public hearings, its reshaping of bills before it, its formal consideration and voting, was chosen particularly as it could be applied easily to the average political science class of thirty or forty members.

The Instructor's Handbook is couched in the simplest terms possible, but that does not mean that it attempts to "talk down" to either teachers or pupils. Many new Congressmen have welcomed it as a simple, direct, but absolutely accurate exposition of the Congressional Committee system. After a few weeks' practice with the Handbook, teacher or student can come to Washington and feel entirely at home in a Congressional Committee room.

The nation-wide demand for the practical teaching of government in the schools and colleges has become pronounced. It was to meet this demand that the CONGRESSIONAL DIGEST worked out this "laboratory" or "learning by doing" method of teaching.

This method is designed to enable the student to obtain a fundamental, accurate and practical knowledge of how the laws of the land are made by the Congress of the United States, and to obtain that knowledge by vivid and engrossing study.

Properly applied, this method will turn the average class in government from a grim, formal affair into a lively and interesting event. Nor will the fact that it supplies a pleasant method of study in anywise sacrifice fundamental and accurate teaching.

Students eligible for the course at a school for boys, in Washington, D. C., voted it into an already crowded curriculum, an interesting precedent for instructors who might desire to submit the plan to a vote of their classes.

Questions arising in the discussions on procedure, structure of Congress, or the study material, may be referred to the CONGRESSIONAL DIGEST for answer, without charge.

If the CONGRESSIONAL DIGEST is used as the current textbook for the course, the instructor is not only relieved of the burden of selecting a current topic for study, but is completely equipped with subject matter especially designed for his use. The CONGRESSIONAL DIGEST has been accepted for 14 years as a reference and guide by libraries and schools throughout the country.

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The October Number .....Oct. 15 to Nov. 15
The November Number .....Nov. 15 to Dec. 15
Holidays
The December Number .....Jan. 15 to Feb. 15
The January Number .....Available first week of Jan.
Problems before incoming Congress. Congress convenes January 3
The February Number .....Feb. 15 to March 15
The March Number .....March 15 to April 15
The April Number .....April 15 to May 15
The May Number .....May 15 to June 15
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Introduction to Subject with Study Outline

Continued from page 134

worthless the honest investors who own stock in holding companies and because Government regulation of utility company rates will eventually result in destroying the value of the securities of those companies.

5. Government regulation of utility company rates will be subject to political influence and will inevitably lead to Government operation at a higher cost than that of private operation.

6. Under Federal Government regulation local utilities would not be locally controlled, but Government-controlled.

7. With a reasonable Federal regulation of holding companies and of those utility companies doing interstate business, the states can easily control the intra-state utilities.

8. Properly regulated, in order that abuses may be prevented, holding companies, by operating on a large scale, can bring about the cheapest gas and electric service the country has ever known.

A Sample Classroom Bill

A simple Senate or House bill for use in classroom consideration of public utility holding company legislation may be drawn along the following lines:

S. —— or H. R. ——.

Be it enacted by the Seante and House of Representatives of the United States in Congress assembled:

Sec. 1. That five years after the approval of this Act public power utility holding companies shall be unlawful.

Sec. 2. That all public utility companies engaged in the production and transmission of electric energy in interstate commerce are required to obtain an operating permit from the Federal Power Commission, and, if offering for sale to the public, shares of stock in such company, must before offering them through the mails, obtain the approval of the Federal Securities Commission.

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6—(Moley) Editorial, "Today," April 20, 1935.
7—(Nash) Public Utilities Fortnightly, March 28, 1935.
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10—(Splawn) Statement before House Committee on Interstate and Foreign Commerce, Feb. 19, 1935.

Personnel of the 74th Congress, Now in Session

***Duration—January** 3, 1935 **to January** 3, 1937. **First Session Convened January** 3, 1935*

In the Senate

Membership
Total—96

69 Democrats — 25 Republicans
1 Farmer-Labor — 1 Progressive

Presiding Officer

President: John N. Garner, D.
Vice-President of the United States

Floor Leaders

Majority Leader: Joseph T. Robinson, Ark., D.
Minority Leader: Charles L. McNary, Ore., R.

Officers

President Pro Tempore
Key Pittman, Nev., D.

Secretary
Edwin A. Halsey

Sergeant at Arms: Chesley W. Jurney
Chaplain: ZeBarney Thorne Phillips, D.D.

In the House

Membership
Total—435

320 Democrats — 103 Republicans
3 Farmer-Labors — 7 Progressives
2 Vacancies

Presiding Officer

Speaker: Joseph W. Byrns, D.
Member of House from Tennessee

Floor Leaders

Majority Leader: Wm. B. Bankhead, Ala., D.
Minority Leader: Bertrand H. Snell, N. Y., R.

Officers

Clerk of the House
South Trimble

Sergeant at Arms
Kenneth Romney

Doorkeeper: Joseph J. Sinnott
Chaplain: James Shera Montgomery, D.D.

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